**NEW ISSUE-BOOK-ENTRY ONLY** **RATINGS: See "RATINGS herein"**

*In the opinion of Drinker Biddle & Reath LLP, Bond Counsel, under existing law as currently enacted and construed, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the individual and corporate federal alternative minimum tax; but, interest on the Bonds will be included in "adjusted current earnings" in computing alternative minimum taxable income with respect to certain corporations. The Bonds, and the interest payable thereon, are exempt from taxation by the State of Delaware or any political subdivision thereof. See "CERTAIN TAX MATTERS" herein.*

# $67,435,000
# SUSTAINABLE ENERGY UTILITY, INC.
## Energy Efficiency Revenue Bonds, Series 2011

**Dated: Date of Issuance** **Due: September 15, as shown on inside cover**

The Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the "Bonds") are being issued by Sustainable Energy Utility, Inc. (the "Issuer"), a Delaware nonprofit corporation created by and for the benefit of the State of Delaware (the "State") pursuant to the Delaware Energy Act, 29 Del. C. §8059 (the "SEU Authorizing Act"), under a Trust Indenture dated as of August 1, 2011, between the Issuer and Citibank, N.A., New York, New York (the "Trustee"). Proceeds of the Bonds will be used to fund projects (the "Projects") consisting of the design, construction and installation of certain energy conservation measures at facilities of certain State agencies (collectively and as further described herein, the "Agencies"). Such funds will be applied to pay the costs of the Projects on behalf of the Agencies in accordance with separate Guaranteed Energy Savings Agreements between the Agencies and the energy service companies that have contracted with the Agencies to implement the Projects (the "Contractors"). See "THE PROJECTS" herein.

The Bonds will be issued as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC is securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form and purchasers will not receive certificates representing their interests in the Bonds purchased. Principal and redemption price if any of, and interest on, the Bonds are payable by the Trustee to DTC which in turn will remit such principal and interest payments to participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursal of such payments to beneficial owners will be the responsibility of DTC and its participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds will be available to purchasers in denominations of $5,000 and any integral multiple of $5,000. Interest, at the rates set forth on the inside cover hereof, is payable on March 15, 2012 and on each September 15 and March 15 thereafter. The Bonds are subject to redemption as described herein. See "THE BONDS – Redemption" herein.

The Bonds are limited obligations of the Issuer payable solely from the Trust Estate, primarily consisting of the Installment Payments (as defined herein) to be made to the Trustee (as assignee of the Issuer) by, or on behalf of, the Agencies in consideration of the Issuer issuing the Bonds and making the proceeds thereof available to pay the costs of the Projects on behalf of the Agencies. The Agencies' obligations to make Installment Payments are subject to appropriation by the State. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS."

EXCEPT AS DESCRIBED HEREIN WITH RESPECT TO THE PAYMENT OF MONEYS WHEN, AS AND IF APPROPRIATED TO THE AGENCIES FOR SUCH PURPOSE, NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO MAKE PAYMENTS ON THE BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR, OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

*The Bonds are offered when, as and if issued and accepted by the Underwriter subject to the approval of legality by Drinker Biddle & Reath LLP, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Issuer by Drinker Biddle & Reath LLP; for the State Agencies that are not institutions of higher learning by the Department of Justice, State of Delaware as counsel; for Delaware State University and Delaware Technical Community College by their respective general counsels; and for the Underwriter by Miller, Canfield, Paddock and Stone, P.L.C. Becker Capital and Finance, New York, New York, and NW Financial Group, LLC, Jersey City, New Jersey, have served as financial advisors to the Issuer in connection with the issuance of the Bonds. The Bonds are expected to be delivered to DTC in book-entry form on or about August 1, 2011.*

**Citi**

Dated July 25, 2011

**$67,435,000**
**Sustainable Energy Utility, Inc.**
**Energy Efficiency Revenue Bonds, Series 2011**

**MATURITY SCHEDULE**

| Due September 15 | Principal Amount | Interest Rate | Yield | Price | CUSIP** |
|---|---|---|---|---|---|
| 2013 | $1,775,000 | 2.000% | 0.650% | 102.840 | 86932UAA3 |
| 2014 | 1,845,000 | 3.000 | 1.000 | 106.132 | 86932UAB1 |
| 2015 | 3,325,000 | 3.000 | 1.280 | 106.884 | 86932UAC9 |
| 2016 | 400,000 | 3.000 | 1.640 | 106.654 | 86932UAD7 |
| 2016 | 2,840,000 | 5.000 | 1.640 | 116.441 | 86932UAW5 |
| 2017 | 300,000 | 4.000 | 2.040 | 111.224 | 86932UAE5 |
| 2017 | 3,135,000 | 5.000 | 2.040 | 116.952 | 86932UAX3 |
| 2018 | 2,285,000 | 4.000 | 2.460 | 110.002 | 86932UAF2 |
| 2019 | 2,405,000 | 5.000 | 2.790 | 115.959 | 86932UAG0 |
| 2020 | 570,000 | 3.000 | 3.060 | 99.523 | 86932UAH8 |
| 2020 | 2,000,000 | 5.000 | 3.060 | 115.336 | 86932UAZ8 |
| 2021 | 2,655,000 | 5.000 | 3.230 | 115.175 | 86932UAJ4 |
| 2022 | 2,805,000 | 5.000 | 3.440* | 113.235 | 86932UAK1 |
| 2023 | 2,940,000 | 5.000 | 3.600* | 111.784 | 86932UAL9 |
| 2024 | 3,080,000 | 3.500 | 3.770 | 97.222 | 86932UAM7 |
| 2025 | 3,175,000 | 5.000 | 3.900* | 109.122 | 86932UAN5 |
| 2026 | 3,325,000 | 5.000 | 3.990* | 108.339 | 86932UAP0 |
| 2027 | 700,000 | 4.000 | 4.080 | 99.057 | 86932UAQ8 |
| 2027 | 2,780,000 | 5.000 | 4.080* | 107.562 | 86932UAY1 |
| 2028 | 3,630,000 | 5.000 | 4.170* | 106.792 | 86932UAR6 |
| 2029 | 3,810,000 | 4.250 | 4.440 | 97.647 | 86932UAS4 |
| 2030 | 3,960,000 | 5.000 | 4.290* | 105.775 | 86932UAT2 |
| 2031 | 4,215,000 | 5.000 | 4.370* | 105.104 | 86932UAU9 |

$9,480,000 5.00% Term Bonds Due September 15, 2034, Priced @ 103.612 to Yield 4.550%*, CUSIP 86932UAV7

* Yield calculated to call date of September 15, 2021.

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*The Official Statement, which includes the cover, inside cover and appendices hereto, does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there by any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the Issuer, the Agencies, the Financial Advisors or the Underwriter to give any information or to make any representations other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.*

The information set forth herein has been obtained from the Agencies, the State, the Issuer, the Contractors and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a promise or guarantee of the Trustee, the Issuer or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agencies, the State, the Issuer or the Contractors or the information contained herein since the date hereof.

The Official Statement contains "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements include, among others, statements concerning expectations, beliefs, opinions, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Official Statement are subjects to risks and uncertainties that could cause actual results to differ materially form those expressed in or implied by such statements.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE RELATING TO THE BONDS HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAW OF THE STATES IN WHICH BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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**THE STATE OF DELAWARE**

Jack Markell, Governor

**SUSTAINABLE ENERGY UTILITY, INC.**

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**OFFICIAL STATEMENT**

**$67,435,000**

**Sustainable Energy Utility, Inc.**
**Energy Efficiency Revenue Bonds, Series 2011**

**SUMMARY STATEMENT**

The purpose of this Official Statement, which includes the cover page, inside cover page and Appendices, is to set forth information regarding the Energy Efficiency Revenue Bonds, Series 2011 (the "Bonds") to be issued by Sustainable Energy Utility, Inc. (the "Issuer"), in the aggregate principal amount of $67,435,000 as further described herein.

The Bonds will be dated the date of delivery and will mature as shown on the inside cover page of this Official Statement. Interest on the Bonds will be payable commencing March 15, 2012 and thereafter semiannually on each September 15 and March 15.

The Issuer is a nonprofit corporation created in 2007 by and for the benefit of the State of Delaware (the "State") pursuant to the Delaware Energy Act, 29 Del. C. §8059 (the "SEU Authorizing Act"), to coordinate and promote the use of sustainable energy in the State, and with full lawful power and authority to issue the Bonds.

The principal of, premium, if any, and interest on the Bonds and any Additional Bonds issued under the Trust Indenture dated as of August 1, 2011 (the "Indenture") between the Issuer and Citibank, N.A., New York, New York (the "Trustee"), are limited obligations of the Issuer payable solely from the Trust Estate described herein. See "SECURITY FOR AND SOURCE OF PAYMENT OF THE BONDS."

EXCEPT AS DESCRIBED HEREIN WITH RESPECT TO THE PAYMENT OF MONEYS WHEN, AS AND IF APPROPRIATED TO THE AGENCIES FOR SUCH PURPOSE, NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO MAKE PAYMENTS ON THE BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR, OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

This Official Statement contains a brief description of the Bonds, summaries of the agreements relating to the Bonds and certain other information applicable to the Bonds and the security for the Bonds. Certain financial, economic and demographic information concerning the State is contained in Appendices A, B and C. The summaries of the Guaranteed Energy Savings Agreements, Installment Payment Agreements, and Construction Funding Agreements (collectively, the "Project Documents") and the Indenture contained in Appendix D do not purport to be complete or definitive and are qualified in their entirety by reference to such documents, copies of which may be obtained from the Underwriter during the offering period and thereafter from the Trustee. Terms not defined in this Official Statement have the meanings set forth in the Indenture and the Project Documents.

## INTRODUCTION

The purpose of this Official Statement is to provide certain information relating to the issuance and sale by the Sustainable Energy Utility, Inc. (the “Issuer”) of the Energy Efficiency Revenue Bonds, Series 2011. All references to this Official Statement include the cover page, inside cover page and Appendices.

The Issuer was established pursuant to the Delaware Energy Act, 29 Del. C. §8059 (the "SEU Authorizing Act"), to coordinate and promote the sustainable use of energy in the State in both the public and private sectors.

The Bonds are being issued under the Indenture pursuant to resolutions adopted by the Oversight Board of the Issuer on June 7, 2011 and certain resolutions of the Issuer's Executive Committee, and in accordance with the SEU Authorizing Act.

The proceeds to be received by the Issuer from the sale of the Bonds will be used (i) to finance projects (the "Projects") consisting of the design, construction and installation of certain energy efficiency measures, including reimbursement of Project costs paid on behalf of Delaware State University under the Interim Funding Agreement dated April 11, 2011 between the Issuer and Delaware State University; (ii) to fund capitalized interest on the Bonds; and (iii) to pay all or a portion of costs of the issuance of the Bonds (including the payment of certain program expenses of the Issuer). See "THE PROJECTS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Issuer has developed a program (the "SEU Program") to issue bonds and utilize the proceeds to pay the costs of designing and implementing energy conservation measures ("ECMs") at the facilities of agencies (defined to include state and local governments and governmental agencies and institutions of higher learning).

The State enacted the Energy Performance Contracting Act, 29 Del. C. §6972 (the “Energy Performance Contracting Act”) to encourage agencies to conserve energy by authorizing them to enter into “guaranteed energy performance contracts” for the design and installation of ECMs at their facilities. The Energy Performance Contracting Act provides that such a contract may be structured as an installment payment contract and that the financing of the ECMs may be implemented through a third party, such as the Issuer.

The Bonds are being issued to finance the initial ECMs for several entities participating in the SEU Program (the "Agencies" and each an "Agency," as further defined herein). Each Agency is obligated to make or cause to be made payments (the "Installment Payments") to the Issuer for the ECMs under an Installment Payment Agreement in accordance with the Energy Performance Contracting Act.

Each Agency selected a prequalified contractor (a “Contractor”) to perform a technical energy audit of its facilities and recommend ECMs. Each Agency then entered into a Guaranteed Energy Savings Agreement (each a “Guaranteed Energy Savings Agreement) with a Contractor for the design, construction and installation of certain ECMs recommended in the technical energy audit for a fixed price (the “Construction Price”). The Issuer will cause the Trustee to apply Bond proceeds to the payment of the Construction Price to the Contractor under a Construction Funding Agreement among the Issuer, the Agency and the Contractor (each a “Construction Funding Agreement”) as work progresses under the Guaranteed Energy Savings Agreement. Each Agency will enter into an Installment Payment Agreement (each an "Installment Payment Agreement") with the Issuer in which the Agency agrees to make Installment Payments to the Issuer over time in consideration of the Issuer issuing the Bonds and entering into the Construction Funding Agreement. These three agreements (the "Project Documents") are substantially the same for each Agency.

The aggregate amount of the Installment Payments payable by the Agencies has been calculated to be payable in such amounts and at such times as will be sufficient to pay principal or redemption price of, and interest on, the Bonds when due. Each Agency's obligations under its Installment Payment Agreement are absolute and unconditional, whether or not the guaranteed energy savings levels are achieved under its Guaranteed Energy Savings Agreement, provided that the Installment Payments are limited obligations of the Agency, payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance Contracting Act.

Each Installment Payment Agreement is the several obligation only of the applicable Agency under which Installment Payments are payable by such Agency out of funds appropriated to such Agency by the State and available for such purpose. No funds appropriated to any Agency for any purpose are available to pay the Installment Payments of any other Agency. In the Indenture, the Issuer will assign to the Trustee its interests in the Installment Payment Agreement, including the current and continuing right to receive the Installment Payments, which will be part of the Trust Estate. The Bonds are limited obligations of the Issuer payable solely from the Trust Estate. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS."

EXCEPT AS DESCRIBED HEREIN WITH RESPECT TO THE PAYMENT OF MONEYS WHEN, AS AND IF APPROPRIATED TO THE AGENCIES FOR SUCH PURPOSE, NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO MAKE PAYMENTS ON THE BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR, OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

The Department of Correction, the Department of Services for Children, Youth and Their Families and Delaware Technical and Community College each have entered into a Memorandum of Understanding with the Delaware Office of Management and Budget ("OMB") and the Issuer, as an intended beneficiary, in which, among other things, each of these Agencies agrees that it will request the amounts of its Installment Payments in its annual budget request and transfer such amounts (to the extent appropriated) to OMB and the OMB agrees (a) to work with the Agency to ensure that appropriate levels of funding are received and (b) to make the Installment Payments from the transferred amounts directly to the Trustee (collectively, the "Memoranda of Understanding). Delaware State University ("Delaware State") has entered into an Agency Agreement with the State, acting through OMB, and the Issuer, as an intended beneficiary, in which (i) Delaware State appoints OMB as its agent to execute the Installment Payment Agreement on its behalf and agrees that it will request the amounts of its Installment Payments in its annual budget request and transfer such amounts (to the extent appropriated) to OMB and (ii) OMB agrees to work with Delaware State to ensure that appropriate levels of funding are received and to make the Installment Payments from the transferred amounts directly to the Trustee (the "Agency Agreement"). OMB has entered into a Memorandum of Understanding with the Issuer in which OMB agrees that it will request that the amounts of its Installment Payments in its annual budget request and work to ensure appropriate levels of funding are received (the "OMB Memorandum of Understanding" and, together with the Memoranda of Understanding and the Agency Agreement, the "State OMB Agreements"). The Issuer will assign its interests in the State OMB Agreements to the Trustee as security for the Bonds.

## THE ISSUER

### General

The Issuer is a nonprofit corporation formed by and for the benefit of the State pursuant to the SEU Authorizing Act, with full lawful power and authority to enter into the Indenture and to issue the Bonds. The Issuer was created in 2007 for the purpose of, among other things, developing end-user markets for energy efficiency services and customer-sited renewable energy and facilitating private sector implementation of the Issuer's market development plans. In furtherance of its purpose, the Issuer has undertaken to issue the Bonds to pay the costs of the Projects which consist of the design, construction and installation of certain ECMs at certain facilities operated by the Agencies.

### Powers and Responsibilities

The State created the Issuer to coordinate and promote the sustainable use of energy in the State. The Issuer's statutory charge includes the use of competitive markets and leveraged private-financing to deliver cost-effective energy services. The Issuer coordinates services that target residential, commercial, industrial, and transportation energy end-users in all energy markets, including electricity, heating fuels, green buildings, clean vehicles, customer-sited renewable energy and affordable energy. The Issuer uses competitively selected implementation contractors to deliver services utilizing performance-based contracts. The SEU Authorizing Act creates a fiscal agent to serve, under contract to the State of Delaware Department of Natural Resources and Environmental Control's Energy Office (the "Energy Office"), as the Issuer's "treasury." The SEU Authorizing Act also creates an Oversight Board to ensure that the Issuer meets responsibilities and performance targets enumerated in its contract with the Energy Office and which serves as the Issuer's board of directors. This Act further establishes initial performance targets for the Issuer as well as evaluation and monitoring mechanisms to ensure that energy savings are verifiable.

As required by the SEU Authorizing Act, the Issuer undertook a comprehensive analysis addressing, among other things, demographic energy use assessments, population and economic growth estimates, energy consumption forecasts and technical and economic potential estimates. The Issuer designed the SEU Program to finance the implementation of ECMs at state and local governments, governmental agencies and institutions of higher learning. The Issuer then prequalified the Contractors as eligible participants in the SEU Program that are "qualified providers" under the Energy Performance Contracting Act.

The SEU Authorizing Act authorizes the Issuer (i) to issue bonds, notes, bond anticipation notes or other obligations and (ii) to enter into contracts with state agencies for the purpose of acquiring, constructing, operating, or providing a project undertaken by a contractor, including arrangements for paying the costs of such project, which costs may include debt service requirements of the Issuer relating to a project. In connection with the issuance of the Bonds, the Issuer invited the Agencies to participate in the SEU Program to fund the construction of ECMs at their facilities. The Agencies' ability to proceed with the construction of the Projects is enabled by the Energy Performance Contracting Act which authorizes the use of certain appropriated funds for the ECMs.

## THE BONDS

Reference is made to the Indenture and to the summary of certain provisions of the Indenture included in Appendix D for a more complete description of the Bonds. The discussion herein is qualified by such reference.

### General

The Bonds will be issued only in fully registered form in denominations of $5,000 or any integral multiples thereof. The Bonds will bear interest (based on a 360-day year of twelve 30-day months) at the rate per annum and mature, subject to earlier redemption, in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will bear interest from their date, payable on March 15 and September 15 (the "Interest Payment Dates") of each year, commencing March 15, 2012. The Bonds, as initially issued, will be dated as of their date of delivery.

The principal of, premium, if any, and interest on the Bonds issued under the Indenture will be payable from the Trust Estate, consisting primarily of the Trustee's rights to receive Installment Payments which were assigned by the Issuer to Trustee under the Indenture. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein.

The Trustee will serve as bond registrar and paying agent (also referred to as the "Bond Registrar and Paying Agent") and will keep all books and records necessary for registration, transfer and exchange of the Bonds in accordance with the terms of the Indenture.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in authorized denominations. Purchasers of such interests will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner, the Trustee will pay the principal or redemption price of and interest on the Bonds to DTC, which is expected to remit such principal and interest and any redemption premium to the Beneficial Owners of the Bonds. So long as DTC acts as a security depository for the Bonds all references to "Bondholder" and "Owner of the Bonds" are deemed to be to Cede & Co., as nominee for DTC, and not to participants of DTC or Beneficial Owners. For a description of the method of payment of principal, interest and any redemption premium on the Bonds and matters pertaining to transfers and exchanges of Bonds while in the book-entry only system, see the information herein under the heading "BOOK-ENTRY ONLY SYSTEM" herein.

The Issuer may issue Additional Bonds on a parity with the Bonds for the purpose of completing one or more Projects upon compliance with certain terms and conditions for such issuance set forth in the Indenture. See ""SECURITY FOR THE BONDS – Additional Bonds" and "Appendix D – Definitions and Summaries of the Indenture and Project Documents."

### Redemption

*Optional Redemption.* The Bonds maturing on and after September 15, 2022 are subject to optional redemption prior to maturity at the option of the Issuer, in whole or in part, at any time on or after September 15, 2021 in any order of maturity and within a maturity as selected by the Trustee by lot, upon payment of a Redemption Price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date, without premium. Each Construction Funding Agreement permits the applicable Agency to direct the Issuer to exercise such right with respect to the optional redemption of the Bonds allocable to the Project of such Agency financed with the Bonds.

*Extraordinary Optional Redemption.* The Bonds are subject to extraordinary optional redemption, in part, at the option of the Issuer as directed by an Agency at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest, if any, to the redemption date, in the event of loss, damage, destruction, condemnation (or conveyance in lieu of condemnation) or abandonment of all or a material portion of one or more structures in or on which the related Project is located but only out of, and to the extent of, funds deposited by such Agency with the Trustee for such purpose.

Following any optional or extraordinary option redemption hereunder, the Issuer shall amend the Installment Payment Agreement with the Agency that deposited the funds used for such redemption to reduce the amount of the Installment Payments thereunder to reflect the resulting decrease in debt service payments, provided that the Issuer has delivered to the Trustee a certification by a Financial Advisor stating that, after giving effect to such amendment, the aggregate amount of the Installment Payments under all Installment Payment Agreements will be sufficient to pay the principal or redemption price of, and interest on, the Bonds to be thereafter outstanding under the Indenture.

*Mandatory Redemption.* The Bonds maturing September 15, 2034 are subject to mandatory sinking fund redemption prior to maturity, in part, as selected by lot by the Trustee, by application of moneys deposited in the Principal Account of the Bond Fund, on each of the dates set forth below and in the principal amounts set forth opposite such date, in each case, at a redemption price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, plus accrued interest.

| Year | | Principal Amount |
|---|---|---|
| 2032 | | $4,325,000 |
| 2033 | | 2,635,000 |
| 2034 | (maturity) | 2,520,000 |

The principal amount of Bonds otherwise required to be redeemed by mandatory sinking fund redemption may be reduced, at the direction of the Issuer, by the application to such redemption obligation of a partial optional redemption of Bonds.

*Selection by Trustee of Bonds to be Redeemed.* If less than all of the Bonds are to be redeemed and such Bonds are not book-entry Bonds, the Bonds to be redeemed will be selected by the Trustee in authorized denominations from the Outstanding Bonds in such order of maturities as the Issuer may direct and within any maturity by such method as the Trustee deems fair and appropriate and which may provide for the selection for redemption of portions of the principal of Bonds of a denomination larger than the minimum authorized denomination for such Bonds. In the event of the partial redemption of book-entry bonds, the selection of particular book-entry bonds to be redeemed will be determined in accordance with DTC depository procedures; provided that the Issuer shall direct the order of maturities in which the book-entry bonds are to be redeemed.

*Notice of Redemption.* The Trustee shall cause notice of any redemption of Bonds to be mailed by first class mail to the Owners of all Bonds to be redeemed at the registered addresses appearing in the Bond Register at least 30 days and not more than 60 days prior to the date fixed for redemption. If at the time of the giving of such notice, moneys for the redemption of such Bonds have not been deposited with the Trustee for such purpose, such notice of redemption may state that such notice is conditioned upon the deposit of moneys with the Trustee by not later than 11:00 a.m., New York time, on the date of redemption and, if such moneys are not received by the Trustee at or prior to such time, such notice shall be of no force and effect and the Bonds so called for redemption shall not be redeemed. The failure to give notice in the manner set forth in the Indenture will not affect the validity of the redemption. The Bonds called for redemption will cease to bear interest after the date fixed for redemption, provided funds have been irrevocably deposited with the with the Trustee for such purpose.

So long as the Bonds are registered as book-entry bonds with DTC, the Trustee is not required to give notice of redemption to the Beneficial Owners.

*Payment of Redemption Price.* Bonds called for redemption will be payable on the redemption date at the applicable redemption price plus accrued interest.

**Payments of Principal, Premium and Interest**

The principal or redemption price of the Bonds will be payable in lawful money of the United States of America at the corporate trust office of the Trustee. No payment of principal or redemption price will be made on any Bond unless and until such Bond is delivered to the Trustee for cancellation.

Interest will be paid by check or draft to person in whose name the Bond is registered in the Bond Register. Upon written request of any Owner of an at least $1,000,000 aggregate principal amount of Bonds, the Trustee shall pay interest and the redemption price (in the case of mandatory redemption) by wire transfer. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Notwithstanding the foregoing, as long as the Bonds are registered as book-entry bonds with DTC, the payment of the principal, redemption price, if any, and interest on the Bonds will be paid pursuant to the depository procedures of DTC.

**Funds and Accounts**

The Trustee shall establish the following Funds and Accounts: (a) Project Fund and, within it, a Project Account for each Project and, within each Project Account, a Capitalized Interest Subaccount; (b) Bond Fund and, within it, a Principal Account and an Interest Account; (c) Redemption Fund; (d) Rebate Fund; and (e) an Administrative Expense Fund for the collection from the Agencies and the disbursement to the Trustee and the Issuer of certain administrative fees.

The Trustee may, and at the request of the Issuer shall establish additional accounts and subaccounts within any Fund; provided that (a) the request of the Issuer sets forth in reasonable detail the sources of deposits into and disbursements from the Account or subaccount to be established, (b) in each case, the sources of deposits into and disbursements from the Account or subaccount to be established will be limited to the sources of deposits permitted or required to be made into and the disbursements permitted or required to be made from the Fund or Account within which it is to be established, and (c) each additional Account or subaccount established will be held in trust for the benefit of all Owners of the Bonds, except funds that were set aside for the payment of particular Bonds and funds held in the Rebate Fund.

## BOOK-ENTRY ONLY SYSTEM

The information in this section has been furnished by DTC. No representation is made by the Issuer, Bond Counsel, the Underwriter or the Bond Registrar and Paying Agent as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Issuer, Bond Counsel, the Underwriter or the Bond Registrar and Paying Agent to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Issuer nor the Bond Registrar and Paying Agent will have any responsibility or obligation to direct participants, indirect participants (as defined below) or the persons for which they act as nominees with respect to the Bonds, or for any principal or interest payment thereof.

The Issuer, Bond Counsel, the Underwriter and the Bond Registrar and Paying Agent cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Bonds (i) payments of principal of or interest on the Bonds, (ii) any document representing or confirming beneficial ownership interests in the Bonds, or (iii) notices sent to DTC or Cede & Co. its nominee, as the registered owner of the Bonds, or that it will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "procedures" of DTC to be followed in dealing with the Direct and Indirect Participants are on file with DTC.

Neither the Issuer, Bond Counsel, the Underwriter nor the Bond Registrar and Paying Agent will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (a) the Bonds; (b) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (c) the payment by DTC to any Participant, or by any Direct Participant or Indirect Participant to any Beneficial Owner of any amount due with respect to the principal of or interest on the Bonds; (d) the delivery by DTC to any participant, or by and Direct Participant or Indirect Participant to any Beneficial Owner of any notice which is required or permitted under the terms of the authorizing resolution to be given to Bondholders; (e) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (f) any consent given or other action taken by DTC as Bondholder.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO MAKE ARRANGEMENTS WITH THE APPLICABLE DIRECT DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT TO RECEIVE FROM SUCH PARTICIPANT NOTICES OF PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE AND INTEREST, AND ALL OTHER PAYMENTS AND COMMUNICATIONS WHICH THE DIRECT PARTICIPANT RECEIVES FROM DTC. NEITHER

THE ISSUER NOR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, either a successor securities depository will be selected by the Issuer or Bond certificates will be prepared, executed and delivered.

*Transfer Outside Book-Entry Only System*. In the event the book-entry only system is discontinued, the following provisions apply to the Bonds. The Trustee, as Bond Registrar and Paying Agent, shall keep the Bond Register at its corporate trust office. Subject to the further conditions contained in the Indenture, the Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations upon surrender thereof at the corporate trust office of the Trustee by the registered owners or their duly authorized attorneys; upon surrender of any Bonds to be transferred or exchanged, the Trustee shall record the transfer or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations. The Trustee shall not be required to transfer or exchange any Bond during the period of 15 days preceding the giving of notice of redemption of the Bonds or to transfer or exchange any Bond all or a portion of which has been called for redemption. The Issuer and the Trustee shall be entitled to treat the registered owners of the Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owner of such Bonds for all purposes under the Indenture. No transfer or exchange made other than as described above and in the Indenture shall be valid or effective for any purposes under the Indenture.

## SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

### Trust Estate

In the Indenture, the Issuer will assign and pledge to the Trustee all of the Issuer's right, title and interest in the following (the "Trust Estate"):

- all right, title and interest of the Issuer in the Installment Payment Agreements, including all extensions and renewals of the terms thereof, if any, and including the present and continuing right to receive, receipt for, collect or make claim for any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer or any other Person is or may become entitled to do under the Installment Payment Agreements;

- all right, title and interest of the Issuer in the State OMB Agreements, including all extensions and renewals of the terms thereof, if any, and including the present and continuing right to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer or any other Person is or may become entitled to do under the State OMB Agreements;

- all moneys and investments in the Funds and Accounts (including all income and receipts and earned amounts on deposit therein) other than (i) the Administrative Expense Fund and the amounts on deposit there and (ii) the Rebate Fund and amounts on deposit therein, each which shall be held in accordance with the provisions of the Indenture; and

- any and all other property rights and interests of any kind and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, alienated, demised, released, conveyed, assigned, transferred, mortgaged or pledged to the Trustee, or otherwise subject hereto, as and for additional security herewith, by the Issuer or any other Person on its behalf or with its consent, and the Trustee is hereby authorized to receive any and all property at any and all times and to hold and apply the same subject to the terms hereof.

**Installment Payments**

The aggregate amount of the Installment Payments payable by the Agencies has been calculated to be payable in such amounts and at such times as will be sufficient to pay principal of and interest on the Bonds when due. Each Agency's Installment Payments under the applicable Installment Payment Agreement have been calculated to be payable in such amounts and at such times as will be sufficient to pay principal of, interest on and redemption price, if any, when due, on the Agency's portion of the Bonds generally equal to (i) the amount of Bond proceeds deposited into the Agency's Project Account divided by (ii) the aggregate of all Bond proceeds deposited into the Project Accounts of all of the Agencies.

Each Agency’s obligations under its Installment Payment Agreement are absolute and unconditional, whether or not the guaranteed energy savings levels are achieved under its Guaranteed Energy Savings Agreement; provided, however, that Installment Payments are limited obligations of each Agency payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance Contracting Act as described below under “Allocation of Obligations.”

Each Agency will include an amount for the Installment Payments in its annual budget request. To fully satisfy its annual obligation under its Installment Payment Agreement, each Agency (other than OMB) will transfer the amount of its annual Installment Payments, but only from available moneys appropriated to such Agency by the State, to OMB, and OMB will make payments required to be paid under the Installment Payment Agreement directly to the Trustee on behalf of each Agency in accordance with the Indenture (it being understood that the obligation of OMB to make such payments is limited only to moneys transferred to it by each Agency from available appropriations).

**Allocation of Obligations**

The Energy Performance Contracting Act (a) requires an agency to allocate sufficient moneys for each fiscal year to pay amounts payable under a performance contract, including a performance contract structured as an installment payment contract, during such fiscal year and (b) permits an agency to use funds designated for operating, energy or capital expenditures for any performance contract, including for purchases on an installment payment basis. The Energy Performance Contracting Act also provides that any grants, subsidies or other payments from the State to an agency will not be reduced as a result of energy savings resulting from a performance contract.

THE BONDS ARE EQUALLY AND RATABLY SECURED BY THE TRUST ESTATE, AND THE FAILURE OF THE STATE TO APPROPRIATE EACH YEAR SUFFICIENT AVAILABLE FUNDS TO ANY OF THE AGENCIES TO MAKE THAT AGENCY'S INSTALLMENT PAYMENTS WILL CAUSE INSUFFICIENT FUNDS TO BE DEPOSITED INTO THE BOND FUND TO PAY ALL PRINCIPAL AND INTEREST ON THE BONDS WHEN DUE.

## INFORMATION CONCERNING STATE APPROPRIATIONS

THE STATE IS NOT OBLIGATED TO MAKE ANY APPROPRIATION TO AN AGENCY. THE BONDS ARE NOT OBLIGATIONS OF THE STATE AND ARE PAYABLE ONLY FROM THE TRUST ESTATE.

Each Agency's Installment Payments are payable only from amounts appropriated by the State that are eligible for payment under its Installment Payment Agreement as described in "THE AGENCIES" herein.

Each Installment Payment Agreement is the several obligation only of the applicable Agency under which Installment Payments are payable by such Agency out of funds appropriated to such Agency by the State and available for such purpose. No funds appropriated to any Agency for any purpose are available to pay the Installment Payments of any other Agency.

The Budget Reserve Account (commonly referred to as the “Rainy Day Fund”) is designed to provide a cushion against unanticipated revenue shortfalls. The State Constitution provides that the excess of any unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account") within 45 days following the end of the fiscal year, provided that the amount of funds in the Budget Reserve Account does not exceed 5% of the estimated budgetary General Fund revenue used to determine the appropriation limit for that fiscal year. Money from the Budget Reserve Account may be appropriated only with the approval of a three-fifths vote of the members of each house of the General Assembly and only to fund an unanticipated budgetary General Fund deficit or to provide funds required as a result of the enactment of legislation reducing revenue. No funds have been withdrawn from the Budget Reserve Account since its inception in 1980.

All disbursements from the budgetary General Fund and certain budgetary Special Funds must be authorized by appropriation by the General Assembly. In the fall of the fiscal year, each Agency submits to OMB a request for operating and capital funds for the ensuing fiscal year. Public hearings on the requests are subsequently conducted. The Governor’s proposed operating and capital budgets for the budgetary General Fund and budgetary Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly’s Joint Finance and Bond Bill Committees hold hearings and mark up the Governor’s proposed operating and capital budgets, respectively. As amended, the budgets are expected to be passed prior to July 1 and signed by the Governor.

Agencies currently participate in a uniform budgeting process whereby each Agency submits with its budget request a department mission, key objectives, background and accomplishments, and activities and performance measures. This fully integrated budget submission provides much information to the public as well as to State decision makers.

The Energy Performance Contracting Act provides that any grants, subsidies or other payments from the State to an agency will not be reduced as a result of energy savings resulting from a performance contract.

After the annual budget is enacted, OMB establishes budgetary accounts in the State's finance and accounting system to record specific spending authorizations granted by the General Assembly. Agencies are not permitted to spend beyond their annual appropriated amounts.

Distribution of appropriations to Agencies are controlled by an encumbrance accounting system that is designed to provide information on the actual extent of the State's obligations (as determined by purchase orders issued) and to guard against over-committing available funds. Disbursements are controlled through the encumbrance system in such a way that purchase orders issued for goods and services cause a reduction in available appropriations. As a result, the amount of budgetary General Fund cash disbursements plus unliquidated encumbrances cannot exceed the amount appropriated by the General Assembly for any budget line. General fund appropriations are made available to State agencies at the beginning of the fiscal year. There is no allotment procedure; however, State agency spending is continually monitored by OMB.

## THE AGENCIES

Proceeds of the Bonds will finance the Projects of the following Agencies: the Department of Correction (“DOC”), the Department of Services for Children, Youth and their Families (the "Children's Department"), Delaware State, OMB and Delaware Technical and Community College ("Delaware Tech").

The Fiscal and Budget Information below is for illustrative purposes only. There can be no assurance that the State will appropriate funds to an Agency in future years at the amounts appropriated for Fiscal Year 2012.

### Department of Correction

The DOC supervises approximately 7,000 inmates in its prisons and community corrections centers and manages almost 17,000 community-based probationers.

The DOC is an executive branch agency authorized under Delaware Code Titles 11 and 29, and is the State's single owner of adult correctional facilities. The DOC operates a unified corrections system that includes the State’s probation function and supplants the need for separate regional, county and municipal jails. The DOC is solely responsible for all offenders regardless of phase (e.g. pre-trial or sentenced), status (e.g. misdemeanor or felony), or sanction (e.g. jail, prison or community-based penalties). The DOC owns and operates correctional facilities in each county in the State. The DOC is the State’s only owner of adult correctional facilities.

*Fiscal and Budget Information.* For Fiscal Year 2012, the State appropriated $265,931,400 to the DOC:

| Fund | Source | FY 2012 Amount |
|---|---|---|
| General Fund-Operating Budget | Revenue from Delaware taxes, fees and charges | $254,733,400 |
| Appropriated Special Fund-Operating Budget | Appropriated revenue from fees paid directly to DOC | 4,356,100 |
| Capital Budget | Bond obligations and revenue from Delaware taxes, fees and charges | 6,301,900 |
| **Total** | | **$265,391,400** |

Of the total $265,391,400 appropriated to DOC for Fiscal Year 2012, the following amounts were designated to budget categories that may be used for such year to make Installment Payments for the DOC Projects under the Energy Performance Contracting Act:

| Budget Category | Amount |
|---|---|
| Energy | $7,782,700 |
| Supplies and Materials | 12,393,900 |
| Contractual Services | 6,210,600 |
| Capital Outlay | 6,301,900 |
| **Total** | **$32,689,100** |

The total of all Installment Payments to be made by the DOC to the Issuer under the applicable Installment Payment Agreement represent approximately 22.06% of the DOC total Fiscal Year 2012 budget. The highest amount of Installment Payments due in any Fiscal Year under the applicable Installment Payment Agreement represents 9.61% of fiscal year 2012 funds appropriated for budget categories eligible for the Installment Payments under the Energy Performance Contracting Act.

**Department of Services for Children, Youth and their Families**

The Children's Department was established in 1983 and serves as the State's consolidated provider of services to children, youth and families through the provision of on-going daily service to over 8,000 children. Children served by the department may have experienced abandonment, abuse, adjudication, neglect or suffer from mental illness and substance abuse. The Children's Department provides and manages services that include prevention, early intervention, assessment, treatment, permanency and after care. The Children's Department has approximately 1200 staff members in 31 state-wide locations, some shared with other State social service agencies, and also in elementary schools.

*Fiscal and Budget Information.* For Fiscal Year 2012, the State appropriated $152,161,300 to the Children's Department:

| Fund | Source | FY 2012 Amount |
|---|---|---|
| General Fund-Operating Budget | Revenue from Delaware taxes, fees and charges | $130,686,600 |
| Appropriated Special Fund-Operating Budget | Appropriated revenue from fees collected by the Children's Department | 19,354,400 |
| Capital Budget | Bond obligations and revenue from Delaware taxes, fees and charges | 2,120,300 |
| **Total** | | **$152,161,300** |

Of the total $151,161,300 appropriated to the Children's Department for Fiscal Year 2012, the following amounts were designated to budget categories that may be used for such year to make Installment Payments for the Children's Department Projects under the Energy Performance Contracting Act:

| Budget Category | Amount |
|---|---|
| Energy | $1,071,400 |
| Supplies and Materials | 1,954,900 |
| Contractual Services | 33,523,600 |
| Capital Outlay | 44,200 |
| **Total** | **$36,594,100** |

The total of all Installment Payments to be made by the Children's Department to the Issuer under the applicable Installment Payment Agreement represent approximately 1.59% of the Children's Department total Fiscal Year 2012 budget. The highest amount of Installment Payments due in any Fiscal Year under the applicable Installment Payment Agreement represents 0.49% of Fiscal Year 2012 funds appropriated for budget categories eligible for the Installment Payments under the Energy Performance Contracting Act.

**Delaware State University**

Delaware State is an accredited comprehensive, state-assisted, land-grant university. Established by the General Assembly in 1891, Delaware State has existed as a land grant institution for 120 years and evolved into a comprehensive university serving the student population of 3,819 as of the fall 2010 semester. Located in Dover, Delaware State currently offers fifty-six (56) undergraduate degree programs, twenty-five (25) master's degree programs and five (5) doctoral degree programs.

*Fiscal and Budget Information.* For Fiscal Year 2012, the State appropriated $45,946,000 to Delaware State:

| Fund | Source | FY 2012 Amount |
|---|---|---|
| General Fund-Operating Budget | Revenue from Delaware taxes, fees and charges | $32,446,000 |
| Appropriated Special Fund-Operating Budget | Appropriated revenue from fees collected by Delaware State University | 0 |
| Capital Budget | Bond obligations and revenue from Delaware taxes, fees and charges | 13,500,000 |
| **Total** | | **$45,946,000** |

Of the total $45,946,000 appropriated to Delaware State for Fiscal Year 2012, the following amounts were designated to budget categories that may be used for such year to make Installment Payments for Delaware State Projects under the Energy Performance Contracting Act:

| Budget Category | Amount |
|---|---|
| Energy | $2,195,900 |
| Operations | 25,899,000 |
| **Total** | **$28,094,900** |

The total of all Installment Payments to be made by Delaware State to the Issuer under the applicable Installment Payment Agreement represent approximately 19.41% of Delaware State's total Fiscal Year 2012 budget. The highest amount of Installment Payments due in any Fiscal Year under the applicable Installment Payment Agreement represents 3.40% of Fiscal Year 2012 funds appropriated for budget categories eligible for the Installment Payments under the Energy Performance Contracting Act.

**Office of Management and Budget**

The OMB was established July 1, 2005 from the consolidation of the former Office of the Budget, the Office of State Personnel and a large portion of the Department of Administrative Services. The OMB is an executive branch agency of the State comprised of the following departments: Office of the Director; Benefits and Insurance Administration; Budget Development; Planning and Administration; Facilities Management; Government Support Services; Human Resource Management; and Payroll and Human Resource Statewide Technology System. OMB oversees the annual creation of the State's budget and manages properties used by certain other agencies and branches of State government.

*Fiscal and Budget Information* For Fiscal Year 2012, the State appropriated $214,937,900 to OMB:

| Fund | Source | FY 2012 Amount |
|---|---|---|
| General Fund-Operating Budget | Revenue from Delaware taxes, fees and charges | $45,007,600 |
| Appropriated Special Fund-Operating Budget | Appropriated revenue collected by Agency | 32,045,000 |
| Capital Budget | Bond obligations and revenue from Delaware taxes, fees and charges | 137,885,300 |
| **Total** | | **$214,937,900**[1] |

[1]Excludes funds appropriated to the Office of Budget Contingencies and one-time items.

Of the total $214,937,900 appropriated to OMB for Fiscal Year 2012, the following amounts were designated to budget categories that may be used for such year to make Installment Payments for OMB Projects under the Energy Performance Contracting Act:

| Budget Category | Amount |
|---|---|
| Energy | $6,044,600 |
| Supplies and Materials | 1,252,800 |
| Contractual Services | 13,221,100 |
| Capital Outlay | 50,300 |
| **Total** | **$20,568,800** |

The total of all Installment Payments to be made by OMB to the Issuer under the applicable Installment Payment Agreement represent approximately 8.37% of OMB's total Fiscal Year 2012 budget. The highest amount of Installment Payments due in any Fiscal Year under the applicable Installment Payment Agreement represents 4.70% of Fiscal Year 2012 funds appropriated for budget categories eligible for the Installment Payments under the Energy Performance Contracting Act.

**Delaware Technical and Community College**

Delaware Tech is a statewide multi-campus community college committed to providing academic, technical, continuing education and industrial training opportunities to State residents and training to students from other States. With campuses in Stanton, Wilmington, Dover and Georgetown, Delaware Tech is the State's only community college. Delaware Tech partners with four-year institutions and has enrollment of 16,000 credit and 20,000 non-credit students.

*Fiscal and Budget Information.* For Fiscal Year 2012, the State appropriated $80,917,800 to Delaware Tech:

| Fund | Source | FY 2012 Amount |
|---|---|---|
| General Fund-Operating Budget | Revenue from Delaware taxes, fees and charges | $67,417,800 |
| Capital Budget | Bond obligations and revenue from Delaware taxes, fees and charges | 13,500,000 |
| **Total** | | **$80,917,800** |

Of the total $80,917,800 appropriated to Delaware Tech for Fiscal Year 2012, the following amounts were designated to budget categories that may be used for such year to make Installment Payments for Delaware Tech Projects under the Energy Performance Contracting Act:

| Budget Category | Amount |
|---|---|
| Campus Improvements – Terry Campus | $2,250,000 |
| Campus Improvements – Stanton/Wilm. Campus | 2,250,000 |
| **Total** | $4,500,000 |

The total of all Installment Payments to be made by Delaware Tech to the Issuer under the applicable Installment Payment Agreement represents approximately 4.33% of Delaware Tech's total Fiscal Year 2012 budget. The highest amount of Installment Payments due in any Fiscal Year under the applicable Installment Payment Agreement represents 30.22% of Fiscal Year 2012 funds appropriated for budget categories eligible for the Installment Payments under the Energy Performance Contracting Act.

## THE PROJECTS

The Bonds are being issued to pay the costs of the design, construction and installation of certain ECMs to be undertaken at facilities of the Agencies (the "Projects"). See "Appendix E — Project Information" for a list of Contractors, Construction Prices and Projects by Agency.

Prior to entering into a Guaranteed Energy Savings Agreement, each Agency received a technical audit report from the related Contractor assessing the energy consumption of the subject facilities and recommending ECMs. Based upon a technical audit report, each Agency and its Contractor have entered into a Guaranteed Energy Savings Agreement under which the Contractor (i) agrees to design, construct and install at the Agency facilities certain ECMs recommended in the technical audit report and (ii) agrees that, if a certain annual level of energy savings resulting from such measures is not achieved, the Contractor will pay to the Agency the amount of the shortfall. The Contractor further covenants that the amount of energy savings in any year will exceed the amount of the Installment Payments that the Agency must pay in such year under the Installment Payment Agreement. See "Appendix D — Definitions and Summaries of Indenture and Project Documents" and "Appendix E — Project Information."

## PLAN OF FINANCE

The proceeds to be received by the Issuer from the sale of the Bonds will be used (i) to finance projects (the "Projects") consisting of the design, construction and installation of certain ECMs, including reimbursement of Project costs paid on behalf of Delaware State under the Interim Funding Agreement dated April 11, 2011 between the Issuer and Delaware State; (ii) to fund capitalized interest on the Bonds; and (iii) to pay all or a portion of costs of the issuance of the Bonds (including payment of certain program expenses of the Issuer). See "THE PROJECTS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated proceeds from the sale of the Bonds and the estimated sources and uses of such funds are shown below:

**Sources of Funds**

| | |
|---|---|
| Principal Amount of the Bonds[1] | $67,435,000.00 |
| Plus Net Original Issue Premium | 5,116,141.30 |
| Total Bond Proceeds | 72,551,141.30 |
| Equity Contribution from the State | 11,270,000.00 |
| **Total Sources of Funds** | $83,821,141.30 |

**Uses of Funds**

| | |
|---|---|
| Project Fund Deposits: | |
| Department of Correction | $39,069,088.00 |
| Department of Services for Children, Youth and Their Families | 2,185,416.00 |
| Delaware State University | 11,260,925.00 |
| Office of Management and Budget | 16,307,313.00 |
| Delaware Technical and Community College | 6,279,952.00 |
| Deposit to Capitalized Interest Accounts | 7,320,037.12 |
| Costs of Issuance[2] | 1,398,410.18 |
| **Total Uses of Funds** | $83,821,141.30 |

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1 Includes certain capitalized interest.

2 Includes Underwriter's Discount, rating agency fees, legal and financial advisory fees, Issuer's fee and other miscellaneous expenses incurred in connection with the issuance of the Bonds as well as an allowance for contingencies of $3,672.98.

## INVESTMENT CONSIDERATIONS

### Limited Obligations

The Bonds are limited obligations of the Issuer, payable solely from the Trust Estate, consisting primarily of the Trustee's rights under the Installment Payment Agreements. The Bondholders may not look to any general or other fund of the Issuer, the State or the Agencies for payment of principal of, or interest on, the Bonds. THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER AS DESCRIBED IN THIS OFFICIAL STATEMENT. EXCEPT AS DESCRIBED HEREIN WITH RESPECT TO THE PAYMENT OF MONEYS WHEN, AS AND IF APPROPRIATED TO THE AGENCIES FOR SUCH PURPOSE, NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO MAKE PAYMENTS ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR, OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "Appendix D - Definitions and Summaries of Indenture and Project Documents."

### Certain Risks with Respect to Payment of State Appropriations

There can be no assurance that there will not be future changes in law, regulation, policy or the availability of revenues at the State level which may materially adversely affect the future availability of State appropriations to make the Installment Payments.

### Failure to Appropriate

The Bonds are equally and ratably secured by the Trust Estate, and the failure of the State to appropriate each year sufficient available funds to any of the Agencies to make that Agency's Installment Payments will cause insufficient funds to be deposited into the Bond Fund to pay all principal and interest on the Bonds when due. See "INFORMATION CONCERNING STATE APPROPRIATIONS."

### No Right of Acceleration

The Indenture does not permit the Trustee to accelerate the payment of principal of Bonds if an Event of Default occurs thereunder.

### Suitability of Investment

A prospective purchaser of the Bonds should carefully consider the suitability of such an investment, including his or her tax situation, liquidity needs, investment goals and cash needs. A prospective purchaser of the Bonds should compare the marketability of the Bonds to other tax-exempt and taxable investments. Generally, the price for which an investor can sell a fixed-income investment like the Bonds depends upon a number of factors, including the then current interest rate for similar obligations. If interest rates for similar obligations are higher than the interest rate or yield to maturity on the Bond being sold, the Bond being sold should be expected to sell for a price which is less than the principal amount of the Bond.

## LEGAL MATTERS

Certain legal matters incidental to the authorization, issuance and sale of the Bonds (and state tax matters) by the Issuer are subject to approval by Drinker Biddle & Reath LLP, Bond Counsel, whose approving opinion will be delivered with the Bonds. Bond Counsel has been retained by the Issuer. The proposed text of the opinion of Bond Counsel is set forth as Appendix F to this Official Statement. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. Such legal opinion, dated and premised on law in effect on the date of original delivery of the Bonds, will be delivered to the Trustee at the time of original delivery and the text of the opinion of Bond Counsel will be attached to the Bonds. The opinion will speak only as of its date, and subsequent distribution of an opinion by recirculation of the Official Statement or otherwise will create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in such opinion subsequent to its date.

Certain legal matters will be passed upon for the Issuer by Drinker Biddle & Reath LLP; for the Agencies that are not institutions of higher learning by the Department of Justice, State of Delaware as counsel; for Delaware State University and Delaware Technical and Community College by their respective general counsels; and for the Underwriter by Miller, Canfield, Paddock and Stone, P.L.C.

## CERTAIN TAX MATTERS

### Federal Tax Exemption

Bond Counsel will deliver, concurrently with the delivery of the Bonds, its opinion to the effect that, under existing law as enacted and construed on the date of such opinion, interest on the Bonds is excluded from gross income for federal income tax purposes. The opinion of Bond Counsel will further state that interest on the Bonds is not a specific item of tax preference for purposes of the individual and corporate federal alternative minimum tax; but, interest on the Bonds will be included in the "adjusted current earnings" in computing alternative minimum taxable income with respect to certain corporations.

### Certain Federal Tax Considerations

***Collateral Federal Tax Consequences***. Ownership of the Bonds may result in collateral federal tax consequences to certain taxpayers, including, without limitation, financial institutions, S corporations with excess net passive income, property and casualty companies, individual recipients of social security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, foreign corporations that may be subject to the foreign branch profits tax, and taxpayers who may be deemed to have incurred indebtedness to purchase or carry the Bonds. Bond Counsel will express no opinion with respect to these or any other collateral tax consequences of the ownership of the Bonds. The nature and extent of the tax benefit to a taxpayer of ownership of the Bonds will generally depend upon the particular nature of such taxpayer or such taxpayer's own particular circumstances, including other items of income or deduction. Accordingly, prospective purchasers of the Bonds should consult their own tax advisors with respect to these and other collateral federal tax consequences resulting from ownership of the Bonds.

***Original Issue Premium***. The initial public offering price of certain Bonds is greater than the stated redemption price thereof at maturity. The difference between the initial public offering price for any such Bond and the stated redemption price at maturity is "original issue premium." For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the holder's tax basis for such Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Bond rather than creating a deductible expense or loss. Purchasers of the Bonds should consult their tax advisors for an explanation of the accrual rules for original issue premium and any other federal, state or local tax consequences of the purchase of any Bonds with original issue premium.

***Original Issue Discount***. The initial public offering price of certain Bonds is less than the stated redemption price thereof at maturity. The difference between the initial public offering price for any such Bond and the stated redemption price at maturity is "original issue discount." For federal income tax purposes, original issue discount on any Bond accrues to original holders of the Bond over the period of its maturity based on the constant yield method compounded annually as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in any Bond for determining taxable gain or loss on the maturity, redemption, prior sale or other disposition of such Bond. Purchasers of the Bonds should consult their tax advisors for an explanation of the accrual rules for original issue discount and any other federal, state or local tax consequences of the purchase of any Bonds with original issue discount.

***Sale and Disposition of the Bonds***. Owners of any Bonds should consult their own tax advisors concerning the tax consequences of the sale, disposition or redemption thereof prior to maturity.

**Continuing Compliance**

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Ongoing requirements include, among other things, the provisions of Section 148 of the Code which prescribe yield and other limits within which the proceeds of the Bonds are to be invested and which may require that certain excess earnings on investments made with the proceeds of the Bonds be rebated on a periodic basis to the United States. The Issuer will make certain representations and undertake certain agreements and covenants in the Indenture, and in a tax compliance agreement to be delivered concurrently with the original issuance of the Bonds, designed to ensure compliance with the applicable provisions of the Code. The inaccuracy of these representations or the failure on the part of the Issuer to comply with such covenants and agreements could result in the interest on the Bonds being included in the gross income of the owners for federal income tax purposes, in certain cases retroactive to the date of original issue of the Bonds.

The opinion of Bond Counsel further assumes the accuracy of certain representations, and continuing compliance with certain covenants, of each Agency made or undertaken in connection with the issuance of the Bonds relating to the use of the facilities improved by reason of the application of the proceeds of the Bonds in accordance with each Guaranteed Energy Savings Agreement and Construction Funding Agreement. The inaccuracy of these representations or the failure on the part of each Agency to comply with such covenants and agreements could result in the interest on the Bonds being included in the gross income of the owners for federal income tax purposes, in certain cases retroactive to the date of original issue of the Bonds.

Bond Counsel has not undertaken to evaluate, determine or inform any person, including any owner of the Bonds, whether any actions taken or not taken, events occurring or not occurring, or other matters that might come to the attention of Bond Counsel, would adversely affect the value of, or tax status of the interest on, the Bonds.

**Qualified 501(c)(3) Status of Delaware State University**

A portion of the Bonds allocable to the funding of projects on behalf of Delaware State University will be treated as “qualified 501(c)(3) bonds” in accordance with Section 145 of the Code. In rendering its opinion as to the tax-status of the Bonds for federal income tax purposes, Bond Counsel will further rely upon representations of Delaware State University and an opinion of the general counsel for Delaware State University, with respect to the qualification of the University as a charitable organization described in Section 501(c)(3) of the Code. The failure of the Delaware State University to be organized and to remain qualified as a so-called "501(c)(3) organization," and to conduct its activities (and, in particular, its activities with respect to the facilities financed with the proceeds of the Bonds) in a manner that is substantially related to its charitable purpose could also result in the interest on the Bonds being included in the gross income of the owners thereof for federal income tax purposes, in some cases retroactive to the date of their original issuance.

**Future Changes**

There can be no assurance that currently existing or future legislative proposals by the United States Congress limiting or further qualifying the excludability of interest on tax-exempt bonds from gross income for federal tax purposes, or changes in federal tax policy generally, will not adversely affect the market for the Bonds.

**Delaware Tax Matters**

In connection with the issuance of the Bonds, Drinker Biddle & Reath LLP, Bond Counsel, will also deliver its opinion to the effect that, under existing Delaware law, the Bonds, and the interest payable thereon, are exempt from taxation by the State of Delaware or any political subdivision thereof.

## CONTINUING DISCLOSURE

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, (the "Rule") prohibits an underwriter from purchasing or selling municipal securities, such as the Bonds, unless it has determined that the issuer of such securities and persons deemed to be material obligated persons have committed to provide (i) on an annual basis, certain financial information, including financial information and operating data ("Annual Reports"), to the Electric Municipal Market Access System ("EMMA") established by the Municipal Securities Rulemaking Board (the "MSRB"); and (ii) notice of various events described in the Rule ("Event Notices") to EMMA.

The Issuer and the State, on behalf of the Agencies, will agree with the purchasers of the Bonds, by executing a Continuing Disclosure Undertaking, to provide Annual Reports and Event Notices to EMMA. A form of the Continuing Disclosure Undertaking appears as "Appendix G — Proposed Form of Continuing Disclosure Undertaking” to this Official Statement.

There have been no instances in the previous five years in which the State or the Issuer has failed to comply, in all material respects, with any continuing disclosure undertaking previously entered into pursuant to the Rule. Prior to the issuance of the Bonds, the Issuer did not have any continuing disclosure obligations. A failure by the State and Issuer to comply with the Continuing Disclosure Undertaking will not constitute a default under the Resolution or the Indenture and the beneficial owners of the Bonds are limited to the remedies described in the Continuing Disclosure Undertaking. The State and Issuer must report any failure to comply with the Continuing Disclosure Undertaking in accordance with the Rule. Any broker, dealer or municipal securities dealer must consider such report before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

## RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") have assigned the respective ratings of "Aa2" and "AA+" to the Bonds.

The ratings on the Bonds are based upon certain information and materials concerning the Bonds furnished to the rating agencies. Any explanation of the significance of the ratings may be obtained only from the rating agencies. There is no assurance that any of the ratings will continue for any given period of time or that any rating may not be revised downward or withdrawn if in the judgment of a rating agency circumstances so warrant. The Issuer undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings or other actions by a rating agency may have an adverse effect on the market price of the Bonds.

## INDEPENDENT AUDITORS

The State's audited June 30, 2010, Basic Financial Statements included as Appendix C to this Official Statement have been examined by KPMG LLP, independent auditors, whose report thereon appears therein. KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP has not performed any procedures relating to this Official Statement.

## FINANCIAL ADVISORS

Becker Capital and Finance, New York, New York, and NW Financial Group, LLC, Jersey City, New Jersey, have served as financial advisors to the Issuer in connection with the issuance of the Bonds.

## UNDERWRITING

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter"), subject to the terms and provisions of the Bond Purchase Agreement among the Issuer, the Agencies and the Underwriter (the "Bond Purchase Agreement"). The Underwriter has agreed to purchase all of the Bonds from the Issuer at a purchase price of $71,912,615.65 (representing the par amount of the Bonds plus a net original issue premium of $5,116,141.30 and less an underwriting discount of $638,525.65). The Underwriter's obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by Bond Counsel and certain other conditions.

Citigroup Inc., parent company of Citigroup Global Markets Inc., the Underwriter of the Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

## NO LITIGATION

### The Issuer

There is no controversy or litigation of any nature now pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or contesting any proceedings of the Issuer with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Bonds or the existence or power of the Issuer or the validity or enforceability of the Bond Purchase Agreement or the Indenture.

Upon delivery of the Bonds, the Issuer shall furnish a certificate, in form satisfactory to Bond Counsel and the Underwriter, to the effect that, among other things, there is no litigation pending in any court or to the best of its knowledge threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting the validity or enforceability of the Bonds.

### The Agencies

Each Agency has represented that there is no controversy or litigation of any nature now pending or threatened against such Agency that in any manner questions its authority to enter into the Project Documents or contests or affects the validity of the Project Documents or any of the transactions contemplated thereby or limit or enjoin the Agency from making the Installment Payments.

## MISCELLANEOUS

Any statements in this Official Statement, including the Appendices hereto, involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statement.

The summaries or descriptions of provisions of the SEU Authorizing Act, the Energy Performance Contracting Act, the Bonds, the Indenture, the Project Documents and all other references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not purport to summarize or describe all the provisions thereof. Reference is hereby made to such instruments, documents and other materials for complete provisions thereof.

The Issuer has consented to the use of this Official Statement in connection with the issuance and initial sale of the Bonds.

The State has not participated in the preparation of this Official Statement, and makes no representation with respect to the accuracy or completeness hereof, except for the information with respect to the State contained in Appendices A, B and C.

This Official Statement has been authorized, executed and delivered by the Issuer.

SUSTAINABLE ENERGY UTILITY, INC.

By: /s/ Harris B. McDowell III
Harris B. McDowell III, Co-Chair

By: /s/ Dr. John Byrne
Dr. John Byrne, Co-Chair

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**Appendix A**

# Financial, Economic and Demographic Information of the State of Delaware

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## STATE OF DELAWARE
## FINANCIAL AND ECONOMIC INFORMATION

**Debt Limits**

There is no Constitutional debt limit of the State.

In 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, effective July 1, 1991, as follows:

First, the aggregate principal amount of new "tax-supported obligations of the State" (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year, as determined by a Joint Resolution approved by a majority of the members elected to each house of the General Assembly and signed by the Governor in conjunction with the adoption of the annual Budget Appropriation Bill for that fiscal year (the "5% Rule"). The June 2010 estimate of net general fund revenues for fiscal year 2011 was $3,338.2 million, thus a total of $166.9 million of new tax-supported general obligation debt was permitted under the 5% rule and was authorized.

The level of tax-supported debt permitted under the 5% Rule is set out in the following table. The fiscal year 2011 is based on Senate Joint Resolution No. 6 which provides fiscal 2011 official revenue, refund and unencumbered fund estimates. The fiscal year 2012 is based upon House Joint Resoluton No. 8 which provides fiscal year 2012 official revenue, refund and unencumbered fund estimates. The revenue estimate for fiscal year 2013 are estimated from the June 16, 2011 meeting of the Delaware Economic and Financial Advisory Council ("DEFAC"), See "STATE FINANCIAL OPERATIONS — Revenue Summary-Fiscal 2011E Fiscal 2013E" herein. Fiscal 2014 and fiscal 2015 are based on the long-term growth rates of 2.2 % and -0.9%, respectively, adopted by DEFAC at its September 20, 2010 meeting. DEFAC projections are dependent on a variety of economic factors affecting the State's projected revenues. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting".

**The 5% Rule**
(in millions)

| | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Fiscal 2014 | Fiscal 2015 |
|---|---|---|---|---|---|
| Estimated Net Budgetary General Fund Revenue | $ 3,338.2 | $ 3,422.9 | $ 3,720.2 | $ 3,802.0 | $3,767.8 |
| Projected New Tax-Supported Debt Authorizations | $ 166.9 | $ 171.1 | $ 186.0 | $ 190.1 | $ 188.4 |

Second, no "tax-supported obligations of the State" and no "Transportation Trust Fund ("Trust Fund" or "TTF") debt obligations" (hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated aggregate budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the "15% Test"). Any such debt incurred would have to comply with this test, as illustrated in the following table:

**The 15% Test**
(in millions)

| | Fiscal 2013[(1)] |
|---|---|
| General Obligation Debt Service | $ 211.0 |
| Less: Excluded Debt Service [(2)] | (60.4) |
| Other Tax-Supported Debt Service [(3)] | 23.4 |
| Total Tax-Supported Debt Service | $ 174.0 |
| Delaware Transportation Authority (TTF) Debt Service | $ 124.4 |
| Total Debt Service | $ 298.4 |
| Estimated Aggregate Budgetary General Fund and TTF Revenue [(4)] | $4,055.5 |
| Total Debt Service as Percent of Total Revenue | 7.4% |

(1) Year of maximum annual debt service. Totals in column may not add due to rounding.

(2) Portion of general obligation debt service to be reimbursed by local school districts, the Trust Fund and the Delaware State Housing Authority.

(3) Includes projected payments on lease obligations of the State.

(4) Based upon June 16, 2011 revenue projections of DEFAC for fiscal 2012. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting."

Third, no general obligation debt (with certain exclusions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which such obligation is incurred (the "Cash Balances Test"), as estimated by the Secretary of Finance. Any such debt incurred would have to comply with the Cash Balances Test, as illustrated below:

**The Cash Balances Test**
(in millions)

| | Fiscal 2013[(1)] |
|---|---|
| General Obligation Debt Service | $ 211.0 |
| Less: Excluded Debt Service [(2)] | (60.4) |
| Net General Obligation Debt Service | $ 150.6 |
| Projected Cumulative Cash Balances [(3)] | $ 731.3 |

(1) Year of maximum annual debt service. Totals in column may not add due to rounding.

(2) Portion of general obligation debt service to be reimbursed by local school districts, the Trust Fund and the Delaware State Housing Authority.

(3) As estimated by the Secretary of Finance based upon June 16, 2011 budgetary General Fund revenue projections by DEFAC for fiscal year 2012.

"Tax-supported obligations of the State" include a) all obligations of the State or any agency or authority thereof to which the States full faith and credit is pledged; and b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly. Tax-supported obligations do not include a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent such local school district obligations are not in default; b) any obligations of the Delaware Transportation Authority; c) any tax or other revenue anticipation notes or bonds of the State; or d) obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

"Transportation Trust Fund debt obligations" include all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

**General Obligation Debt**

On December 31, 2010, the outstanding general obligation debt of the State, a portion of which was supported by budgetary General Fund revenue and a portion of which was supported by budgetary Special Funds, was as follows:

**Outstanding General Obligation Debt**
(in millions)

| | |
|---|---|
| General Obligation Debt Supported by Budgetary General Fund Revenue | |
| State Facilities | $ 493.1 |
| School Facilities (State Share) | 658.7 |
| Subtotal | $1,151.8 |
| General Obligation Debt Supported by Budgetary Special Funds | |
| Highways and Other Transportation Improvements | $0.9 |
| School Facilities (Local Share) | 554.7 |
| Housing Authority Loans | 0.3 |
| Subtotal | $ 555.9 |
| Total General Obligation Debt Outstanding | $1,707.7[(1)] |

(1) Totals may not add due to rounding.

The Trust Fund reimburses the budgetary General Fund for the payment of debt service on previously issued transportation-related general obligation debt and debt issued on behalf of the Division of Motor Vehicle. As of December 31, 2010, $0.9 million of such debt was outstanding.

The State pays between 60% and 80% of the cost of capital improvements for public school districts upon approval of such cost by the State Board of Education. The school districts pay the remaining percentage. In conjunction with aggregate construction spending of capital improvement projects, the State issues bonds for 100% of the cost of approved school district projects pursuant to Authorization Acts. Simultaneously, the school districts issue their own bonds (the "School District Bonds") to the State for their 20% to 40% share of capital costs at an interest rate not exceeding 1/4 of 1% above the interest rate on the corresponding State bonds. As debt service payments on the State's bonds become due, school districts are required to pay debt service on the School District Bonds from their tax receipts into the State's budgetary General Fund, and the State pays the total debt service from its budgetary General Fund appropriation.

No school district has ever defaulted on any such obligation to the State. This policy allows the local school districts to borrow capital funds at very competitive rates and to lessen the associated costs of issuance and market access.

**Authorized but Unissued General Obligation Debt**

Statutory authorization exists for the issuance of additional general obligation debt of the State in the principal amount of $190.5 million.

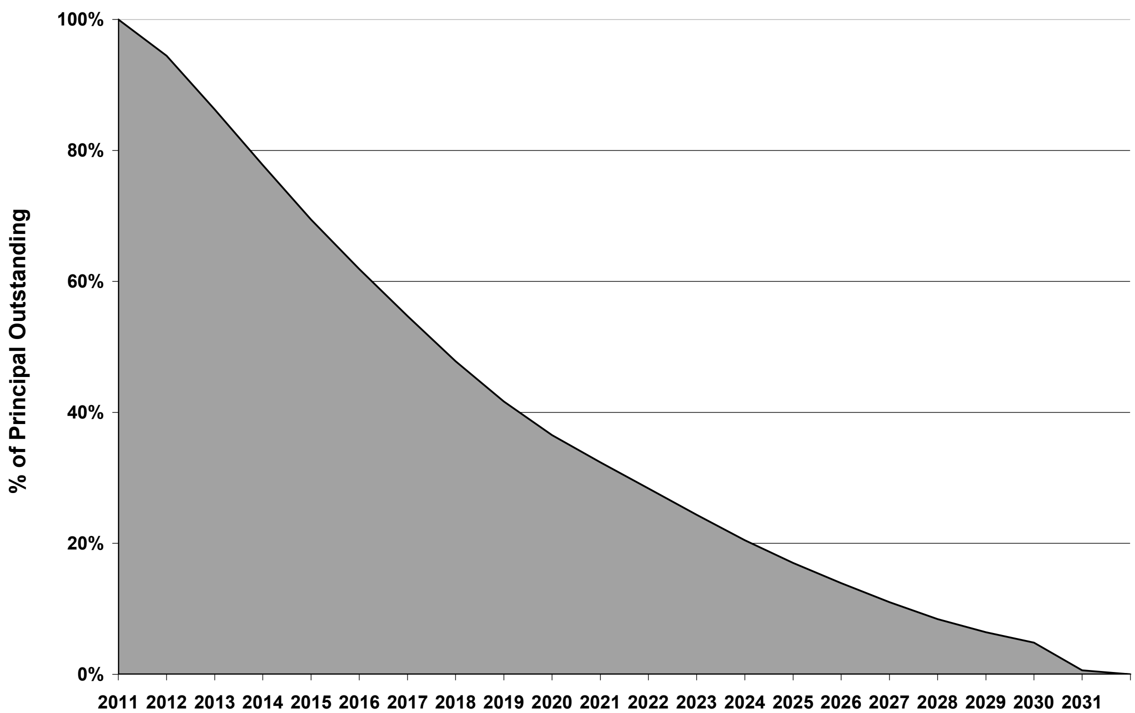
**General Obligation Note Debt**

There are no outstanding State general obligation notes or any notes of any authority or agency for whose debt the State has a contingent liability as of the date of this Official Statement.

**Debt Burden Comparisons**

The State's general obligation debt outstanding was $1,707.7 million on December 31, 2010 with approximately 72% scheduled to mature within ten years. The following chart further demonstrates the State's commitment to the rapid retirement of its general obligation debt.

**General Obligation Debt Amortization as of December 31, 2010**




Delaware's debt burden reflects the centralized role of the State government in financing capital projects that are typically funded by local governments in other states, such as schools and correctional facilities. In the U.S. Census Bureau's Public Education Finances survey of 2009 issued in May 2011, Delaware ranked 14th in state spending per pupil in elementary — secondary public schools. Of the $1,707.7 million of debt outstanding as of December 31, 2010, $554.7 million or 32.5% was issued on behalf of local school districts. This debt is fully supported by the property tax revenues of those districts.

The State has instituted a number of measures designed to manage and reduce its indebtedness, as outlined below.

**Aggressive Retirement of General Obligation Debt:** The State voluntarily retires its general obligation debt rapidly. Approximately 72% of current general obligation debt is scheduled to mature within ten years, as noted above.

**Strict Debt Limitations:** In 1991, the State instituted new debt limits, one of which restricts new debt authorizations to 5% of budgetary General Fund revenue as projected for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made. The debt limit also effectively eliminates the use of any "off balance sheet" financing instruments, such as certificates of participation. See "Debt Limits" for further information concerning the State's debt limits.

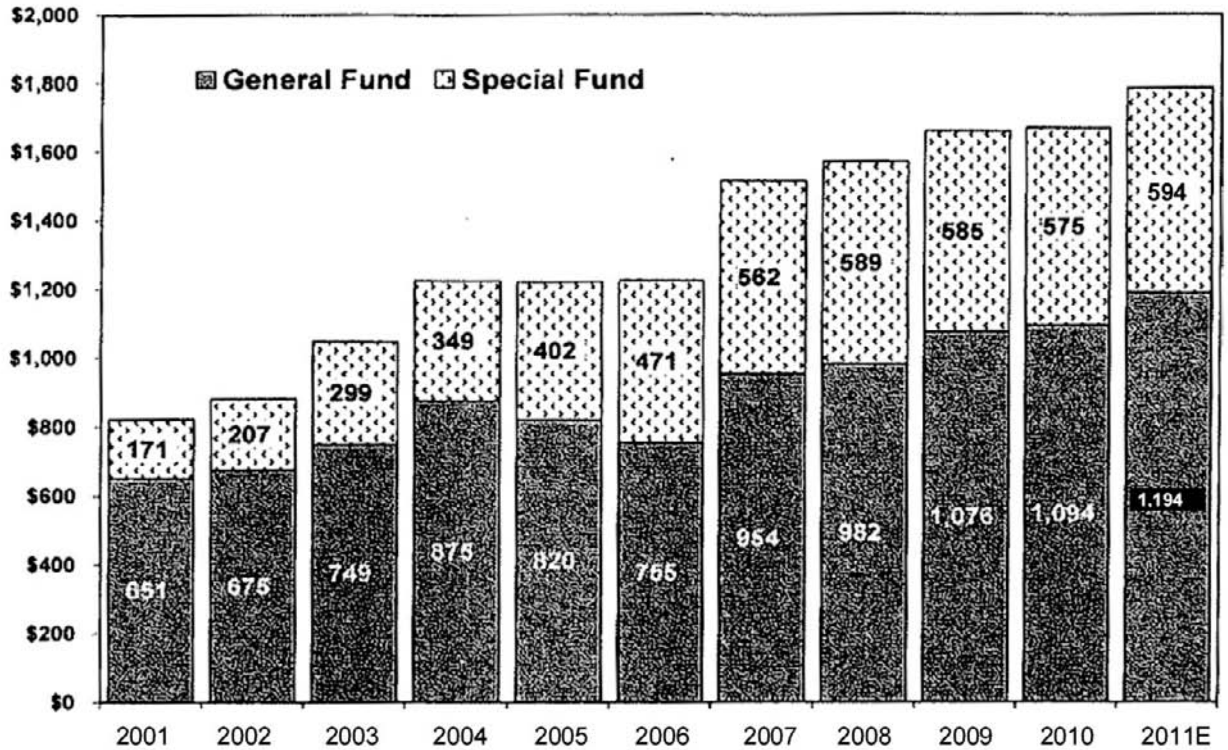
**Significant "Pay-As-You-Go" Financing:** Over the years, the State has appropriated surplus cash for "pay-as-you-go" financing. Revenue surpluses between fiscal years 1993 to 2001 allowed the State to appropriate cash on average at a rate of 52.6% of capital expenditures. With more modest revenue growth, cash contributions in fiscal 2002 and 2003 were reduced. However, between fiscal 2004 and 2011, the cash funding exceeded $1.2 billion or almost 27% of capital expenditures.

**Debt Reduction:** During the period of 1995-2001, the State implemented a substantial debt reduction plan as extraordinary surpluses permitted. Revenues in the fiscal years since 2001 have precluded additional debt reduction efforts, but the State remains committed to debt reduction as a policy initiative as revenues allow.

**Numerous Bond Refundings:** The State has undertaken a series of bond refundings which have lowered the overall debt service on outstanding State general obligation debt. In fiscal 2003, the State refunded over $167 million of its general obligation bonds for a combined savings of $8.7 million. In fiscal 2004, savings of $2.9 million were realized after the State refunded $74.6 million of its general obligation bonds; in fiscal 2005, savings of $1.9 million were realized after the State refunded $48.3 million of its general obligation bonds; in fiscal 2008, savings of $.7 million were realized after the State refunded $16.4 million of its general obligation bonds; and in fiscal 2011, net present value, savings of $3.45 million were realized after the State refunded $54.6 million of its general obligation bonds. The State continues to monitor opportunities to refund its outstanding bonds to lower future debt service requirements.

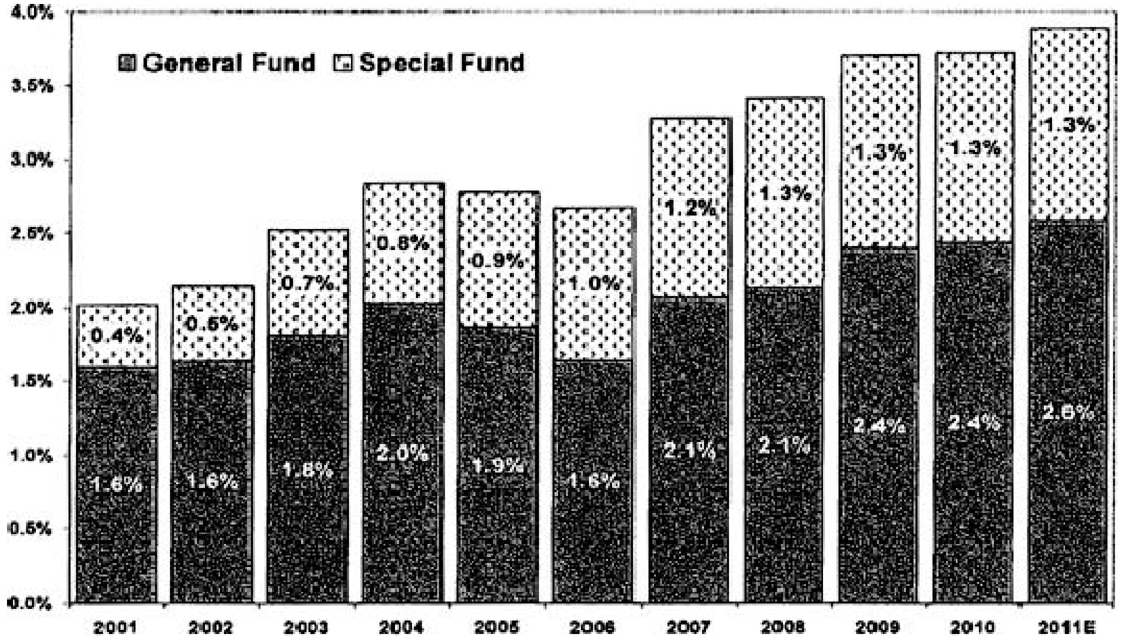
The result of these initiatives has been to reduce the rate of growth in Delaware's debt burden, as depicted on a fiscal year basis in the following three charts.

**Debt Per Capita at June 30**



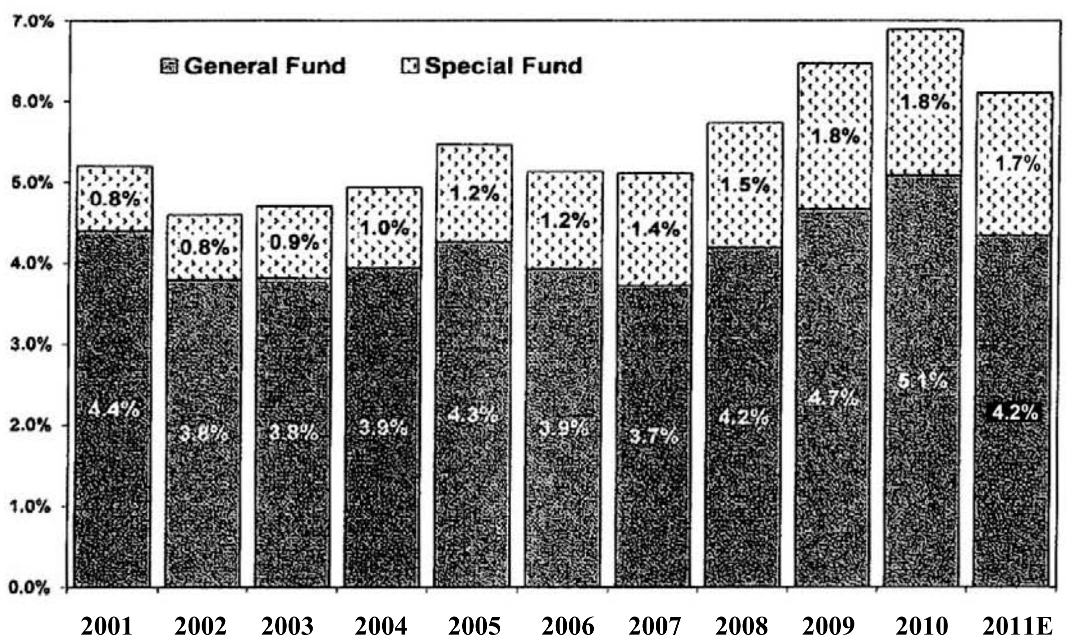

Notes: Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds. 2011 data assumes a population growth rate of 1.2%.

**Debt as a Percentage of Personal Income at June 30**




Notes: Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The Remainder is funded by budgetary Special Funds.
Personal Income estimates provided by Global Insight and Delaware Department of Finance.

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




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

**Qualified Zone Academy Bonds**

Qualified Zone Academy Bonds ("QZAB") are general obligation bonds backed by the full faith and credit of the State for the repayment of principal, primarily through the use of a sinking fund with a bullet maturity. QZABs are taxable bonds the proceeds of which are limited to improving eligible public schools, such capital projects having been approved by the General Assembly. In lieu of receiving periodic interest payments from the State, an eligible QZAB holder is generally allowed annual federal income tax credits while the QZAB is outstanding.

On December 8, 2006, the State issued $1,433,000 QZABs for the purpose of financing renovations of the following facilities in the Cape Henlopen School District, Sussex County, Delaware: the Lewes School, Milton Elementary School, Rehoboth Elementary School and H.O. Brittingham Elementary School. In conjunction with the QZAB, the State executed a forward delivery contract requiring that the State establish an escrow account to be funded with annual sinking fund deposits and which will be guaranteed interest at a rate of 2.72% per annum.

In 2004, the State issued $908,000 QZABs and, in fiscal 2005, issued $224,177 QZABs to finance the renovations of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. In fiscal 2003, the State issued $760,000 QZABs and, in fiscal 2002, issued $649,000 QZABs. The fiscal 2003 QZAB proceeds funded the renovation of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. The fiscal 2002 QZAB proceeds assisted in the renovation of Georgetown and Showell elementary schools in the Indian River School District, Sussex County, Delaware.

**State Revenue Debt**

There is currently no State revenue debt outstanding, nor any plans to authorize any State debt other than State general obligation debt.

**Lease Obligations**

The State has entered into long-term leases with terms in excess of one year. At June 30, 2010, aggregate remaining lease payments total approximately $176.9 million with $117.7 million payable through fiscal 2015. Real estate rentals account for 85.5% of the aggregate payments and equipment rentals account for the remainder. All payments are subject to annual appropriation. The State may not be held contractually liable for the payments in the event that such appropriations are not made. See "Appendix C - Notes to the Financial Statements - #8, Lease Commitments". Lease obligations are subject to one of the State's debt limits, the 15% Test. See "Debt Limits" for a further explanation.

## INDEBTEDNESS OF AUTHORITIES, UNIVERSITY OF DELAWARE AND POLITICAL SUBDIVISIONS

Oversight responsibility for the issuance of debt by the State and authorities deemed to be part of the State's financial reporting entity is centralized under the Secretary of Finance. The following section sets forth certain indebtedness of State authorities, Delaware State University, the University of Delaware and political subdivisions of the State. The State is not directly or contingently liable for debt service for any of the following indebtedness.

**Authorities**

**Delaware Transportation Authority**

The Delaware Transportation Authority (the "Authority") is a body corporate and politic constituting an instrumentality of the State. The Authority acts by resolution of the Secretary of the Department of Transportation (the "Department"), the Director of Finance of the Department and the Transportation Trust Fund Administrator. The Department has overall responsibility for coordinating and developing comprehensive, multi-modal transportation planning and policy for the State. The Authority assists in the implementation of this policy and has the power to develop a unified system of air, water, vehicular, public and specialized transportation in the State, subject to oversight by the Department and the State as hereinafter described.

To assist the Authority in financing a unified transportation system, the State created the Transportation Trust Fund (the "Trust Fund" or "TTF") within the Authority in 1987 to receive revenue and receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation-related fees, all of which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned and continuously appropriated these taxes and fees to the Trust Fund. The other major source of funding for the Trust Fund is toll and concession revenue of the Delaware Turnpike and the Route 1 Toll Road. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financings for these projects.

As of December 31, 2010, the Delaware Transportation Authority had outstanding $1,098.6 million in Transportation System Revenue Bonds and $113.5 million in Grant Anticipation Vehicle Bonds, or "GARVEEs", which were issued to finance a portion of the costs of completing the final design and right-of-way acquisition activities for a new U.S. 301. The Authority may issue bonds to refund prior Authority obligations.

Additional bonds secured on parity with the Senior Bonds or secured on parity with the Junior Bonds may be issued subject to the satisfaction of debt service coverage tests and certain other requirements. Under certain circumstances, additional revenue may be pledged by the Authority to secure its bonds, in which case such revenue may be taken into account in determining satisfaction of these debt service coverage tests. The Authority may also incur additional debt, which has a lien on revenue subordinate to the lien of other bonds. See "Appendix C - Notes to the Financial Statements - #6, Revenue Bonds".

In addition to debt service coverage tests and certain other requirements, future debt issues of the Authority are subject to one of the debt limits of the State. The debt limit mandates that the aggregate maximum annual payments on the State's tax-supported obligations and the TTF debt obligations of the Authority (plus certain lease obligations) may not exceed 15% of total budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such debt is issued. See "Debt Limits" for a further explanation.

The bonds of the Authority do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State or any political subdivision, agency or instrumentality thereof other than the Authority. The State's pledge and assignment to the Authority of motor fuel tax revenue, motor vehicle document fees, motor vehicle registration fees and other revenue pursuant to State law creates an obligation of the State, until there are no longer any Authority bonds remaining outstanding, to continue to impose and collect these taxes and fees at least at the rates in effect on the date of issuance of the Authority bonds and to transfer this revenue to the Authority. The State, however, has no obligation to increase these taxes or fees to provide sufficient revenue to meet payments of debt service on the Authority bonds.

**Delaware State Housing Authority**

The Delaware State Housing Authority ("DSHA"), created in 1968, had outstanding on December 31, 2010, $780.3 million of tax-exempt revenue bonds and $121.8 million of taxable revenue bonds. Approximately $893.5 million of the outstanding bonds were issued to finance the purchase of single-family homes, and $8.6 million was issued to finance multi-family housing. The security for these bonds is mortgage loan repayments, reserve funds, bond proceeds and other revenue. The taxable bonds have been issued primarily to finance second mortgages, providing down payment and closing cost assistance to eligible first-time homebuyers. See "Appendix C - Notes to the Financial Statements - #6, Revenue Bonds".

DSHA bonds do not constitute a debt or liability of the State. The enabling legislation, however, provides that the General Assembly may, but is not obligated to, make appropriations to restore the DSHA's capital reserve fund if such fund is drawn upon to meet debt service payments on certain of the DSHA's bonds. As of December 31, 2010, there were no DSHA bonds outstanding which are entitled to the benefit of the capital reserve fund. To date, the General Assembly has not been requested to make any such "moral obligation" appropriations. The statutory debt limit of the DSHA is $350.0 million in bonds carrying the moral obligation of the State.

**The Delaware Economic Development Authority**

The Delaware Economic Development Authority and its predecessors had outstanding approximately $1.291 billion in economic development revenue bonds on December 31, 2010, none of which are backed by the full faith and credit of the State.

The following two Authorities are not part of the State's financial reporting entity. The State, however, exercises oversight regarding their debt activities.

**Delaware Solid Waste Authority**

The Delaware Solid Waste Authority was created in 1975 and is the sole entity in the State responsible for the planning and administration of a comprehensive statewide program for the management, storage, collection, transportation, utilization, processing (including resource recovery), and disposal of solid waste and sewage sludge. On December 31, 2010, the Authority had $129.0 million outstanding solid waste revenue bonds.

**Delaware Health Facilities Authority**

The Delaware Health Facilities Authority, established in 1973, is authorized to issue revenue bonds and notes to finance projects for health care facilities located in the State. As of December 31, 2010, there were outstanding $638.5 million of revenue bonds issued for the benefit of these facilities. The Authority has no taxing power and no source of funds other than from the contractual obligations of participating health care facilities.

**Delaware State University**

There were outstanding on June 30, 2010, $55.1 million of revenue bonds issued by the Delaware State University. These bonds are secured by the University's pledge of certain of its net operating revenue and net non-operating revenue, exclusive of gifts, grants, bequests, contributions and donations to the extent specifically restricted to a particular purpose inconsistent with their use for the making of debt service payments and any funds appropriated by the State of Delaware.

**University of Delaware**

There were outstanding on December 31, 2010, $366.9 million of revenue bonds issued by the University of Delaware for housing, dining and other auxiliary facilities. These bonds are secured by revenue generated by the facilities.

**Political Subdivisions**

The approximate aggregate principal amount of general obligation bond indebtedness of the three counties, the City of Wilmington, the other cities and towns and the school districts of the State is outlined in the table which follows, as of December 31, 2010.

**General Obligation Debt of Political Subdivisions**
(in millions)

| | |
|---|---|
| New Castle County | $389.2 |
| Sussex County | 169.5 |
| Kent County | 38.5 |
| Wilmington | 102.5(1) |
| Other Cities and Towns | 200.3(2) |
| School Districts | 554.7(3) |
| Total | $1,454.7 |

(1) Of this total, $7.6 million in principal is supported by payments from the Diamond State Port Corporation, an instrumentality of the State. Excludes $25.8 million of Wilmington Parking Authority bonds guaranteed by the City of Wilmington.
(2) Excludes revenue bonds and anticipation notes.
(3) Represents local shares sold by the State on behalf of the school districts (as reported in the earlier chart entitled "Outstanding General Obligation Debt").

Source: Chief fiscal officers of respective governmental entities.

Indebtedness of counties, towns, and cities, other than the City of Wilmington, has been incurred primarily for water and sewer projects and general municipal purposes, subject to various debt limits. The State is not liable for any of this indebtedness. Unlike most other states, the State, rather than the local governments, is principally responsible for capital expenditures for schools and correctional facilities.

School districts may not issue bonds (including bonds sold to the State by school districts to fund the 20% to 40% share of capital costs), except to refund outstanding bonds, in an aggregate amount causing bonded debt of the district, less sinking funds on hand for payment of such bonded debt, to exceed 10% of the assessed value of the real property in the district.

## ECONOMIC BASE

The State is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean and the Delaware Bay, as well as by the states of New Jersey, Pennsylvania and Maryland. It has a land area of 1,955 square miles, ranking 49th in area in the United States. The State is 96 miles long and varies from 9 to 35 miles wide, with elevations ranging from sea level to 442 feet. As the first state to ratify the United States Constitution on December 7, 1787, Delaware is known as "The First State."

**Recent History**

Since fiscal 2004, Delaware's economic performance has been mixed relative to national trends. While Delaware's income growth has largely matched that of the United States, the State's employment growth has failed to keep pace with national trends. While Delaware's ties to the national economy are unmistakable, throughout the recent business cycle, Delaware consistently posted lower unemployment rates than the United States. (For a summary of Delaware's most recent economic forecast, sec "STATE FINANCIAL OPERATIONS — Economic Projections".)

Delaware's mixed recent performance is due, in part, to the changing composition of its economic base. With a heavy concentration in financial services, the State's economy could not avoid the effects of recent industry turmoil. Despite this uncertainty, the State's major employers, Bank of America and JP Morgan Chase, for example, continue to maintain a major presence in the State. At the same time, relative new corners, like Barclays, demonstrate that Delaware should maintain its position as a financial center.

Delaware’s long-established manufacturing sectors, automobiles and fibers have also suffered as a result of the worst economic downturn since World War II. With both of the State’s automobile assembly plants and its sole oil refinery no longer in operation, the State’s blue collar employment has suffered. In response to these setbacks, however, Delaware has made important strides to reinvigorate and modernize its manufacturing base. In June 2010, PBF Energy Partners marked final settlement on their $220 million acquisition of the former Valero refinery in Delaware City. The plant, scheduled to reopen in June, is expected to provide work for some 700 people. Fisker Automotive’s purchase of the State’s former General Motors assembly plant has given the facility new life. Fisker is expected to invest $175 million in the facility in order to produce the Nina, a family sedan that will feature a plug-in hybrid power vehicle. Fisker expects to begin production hiring in early 2012 with full production to follow in the third quarter of that year. In June 2011, Bloom Energy announced its intention to construct a new manufacturing facility on the site of the State’s former Chrysler assembly plant. Expected to begin operations in late 2012, the electricity producing fuel cell manufacturer is expected to employ roughly 900 workers when fully operational.

Since the adoption of the Financial Center Development Act in 1981, diversifying Delaware’s economy has consistently ranked among State policymakers’ highest priorities. The State’s economic development efforts have followed a two-pronged approach. Broadly speaking, Delaware has continually improved its business climate using a combination of prudent fiscal management, judicious tax policy, and strategic investments in public education and infrastructure. When faced with specific challenges, alert and supportive policymakers have teamed with the business community to develop effective policy responses to a changing economic landscape.

In March 2010, the U.S. Department of Education announced that Delaware was one of only two recipients to be awarded “Race to the Top” federal funding. Race to the Top is a federal education funding program that is funded under the American Recovery and Reinvestment Act to reward states for aggressively reforming their education systems. The State will receive over $100 million in Race to the Top funding which will be paid out over the next four years.

In May 2009, Governor Jack Markell signed a sports betting bill into law that reactivated a sports lottery in Delaware, one of only four states exempt from the federal ban on sports betting tinder the Professional and Amateur Sports Protection Act enacted in 1992. Delaware’s bill allows a sports lottery in the State’s three existing racinos, using single game wagers on professional and certain collegiate athletic events. Delaware’s position was challenged by the National Football League (“NFL”) and other pro sports leagues, along with the NCAA, and in August 2009, a three-judge panel of the 3”1 U.S. Circuit Court of Appeals declared that Delaware’s single-game bets and wagering on a variety of professional and collegiate sports violated the federal law. Delaware appealed the 3rd Circuit’s decision to the United States Supreme Court which on May 3, 2010 declined to hear the case. As such, the State’s three racinos will continue to offer three-game parlay bets on NFL games. In January 2010, Delaware passed legislation permitting its racinos to operate table games such as blackjack, craps and roulette. In June 2010, all three of the State’s racinos began offering table games. These games have enhanced Delaware’s position in an increasingly competitive gaming market, increased employment, and added more than $18 million in revenue, plus licensing fees, to the State’s coffers.

Delaware continues to pursue high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology, information technology and, more recently, alternative energy and other green industries. The State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, Delaware’s higher education institutions and the private sector. The Institute is designed to expand the State’s scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

The State's business friendly legal system continues to attract new incorporations. In recent years, more than 70% of new U.S. initial public offerings ("WO") have chosen Delaware as their legal domicile.

Even though IPO activity has suffered from economic and other factors, the State has continued to register a record number of business formations in the form of LLCs and LPs.

**Population**

Between 2009 and 2010, Delaware's population was estimated to have increased by 1.3 percent, to 897,934 inhabitants. In comparison, there was 0.22 percent growth in the region and 0.6 percent growth in the nation over the same period.

The following table presents population trends for Delaware, the mid-Atlantic region and the United States for 2005 through 2010.

**Population**
(in thousands)

| | Delaware | | Mid-Atlantic Region (l) | | United States | |
|---|---|---|---|---|---|---|
| | **Population** | **Change** | **Population** | **Change** | **Population** | **Change** |
| 2005 | 840 | 1.6 | 46,793 | 0.3 | 295,753 | 0.9 |
| 2006 | 853 | 1.6 | 46,917 | 0.3 | 298,593 | 1.0 |
| 2007 | 865 | 1.4 | 47,080 | 0.3 | 301,580 | 1.0 |
| 2008 | 876 | 1.3 | 47,232 | 0.3 | 304,375 | 0.9 |
| 2009 | 885 | 1.0 | 47,439 | 0.4 | 307,007 | 0.9 |
| 2010 | 898 | 1.3 | 47,544 | 0.2 | 308.746 | 0.6 |

(1) Mid-Atlantic region consists of Maryland, New Jersey, Pennsylvania, New York and Delaware.

Source: U.S. Census Bureau.

**Major Political Subdivisions**

The State has three counties: Kent, New Castle, and Sussex. All of the cities and towns in the State are independent, incorporated municipalities. There are three major cities: Wilmington, the largest city, with a 2010 estimated population count of 73,022; Dover, the State capital and the site of a major U.S. Air Force base, with a 2010 estimated population count of 37,341 residents; and Newark, the site of the University of Delaware, with a 2010 estimated population count of 30,486.

The following table shows the population of the State's three counties for the years 2005 through 2010. Approximately 60 percent of the State's population lives in New Castle County, the northernmost county. Sussex County, the southernmost county, and Kent County continue to show stronger growth, approximately twice that experienced by New Castle County.

**Population by County**

Source: Delaware Population Consortium

| | New Castle | Change | Kent | Change | Sussex | Change |
|---|---|---|---|---|---|---|
| 2005 | 520,929 | 0.78 | 143,308 | 3.5 | 175,687 | 2.5 |
| 2006 | 524,464 | 0.67 | 148,037 | 3.3 | 180,505 | 2.7 |
| 2007 | 527,778 | 0.63 | 152,094 | 2.7 | 185,022 | 2.5 |
| 2008 | 531,048 | 0.62 | 155,487 | 2.2 | 189,659 | 2.5 |
| 2009 | 534,636 | 0.67 | 157,740 | 1.4 | 192,755 | 1.6 |
| 2010 | 538,170 | 0.66 | 160,058 | 1.4 | 196,945 | 2.1 |

## Personal Income

Personal income is the income received by all persons from all sources. The State's total personal income rose by 2.4 percent from calendar 2009 to 2010, compared with increases of 3.0 percent for the mid-Atlantic region and 2.9 percent for the nation. Total State personal income in calendar 2010 was $35.8 billion.

The following table provides per capita personal income comparisons for calendar 2005 through 2010. (Per capita personal income is the annual total personal income of State residents divided by the population.) Per capita personal income of Delaware residents rose by .36 percent from calendar 2009 to 2010 compared with .67 percent in the mid-Atlantic region and 3.6 percent in the U.S. over the same period. State per capita personal income was 98 percent of U.S. per capita personal income in calendar 2010.

### Per Capita Personal Income

| | Delaware | Change | Mid-Atlantic Region(1) | Change | United States | Change | Delaware as Percent of the United States |
|---|---|---|---|---|---|---|---|
| 2005 | 37,001 | 3.6% | 39,901 | 4.7 | 35,424 | 4.6% | 104 |
| 2006 | 39,046 | 5.5% | 42,882 | 7.5 | 37,698 | 6.4% | 104 |
| 2007 | 39,932 | 2.5% | 45,539 | 6.2 | 39,392 | 4.5% | 101 |
| 2008 | 40,375 | 1.1% | 46,657 | 2.5 | 40,166 | 2% | 101 |
| 2009 | 39,817 | -1.4% | 45,639 | -2.2 | 39,138 | -2.6% | 102 |
| 2010 | 39,962 | 0.36% | 45,948 | 0.67 | 40,584 | 3.6% | 98 |

Source: U.S. Department of Commerce.

(1) Mid-Atlantic region includes Delaware, Maryland, New York, New Jersey and Pennsylvania.

## Unemployment Rates

Delaware's average unemployment rate for 2010 rose to 8.5 percent from 8.0 percent in 2009. The region had an overall average unemployment rate of 8.7 percent in 2010, up from 8.3 percent in 2009. The following table presents the average annual unemployment rates for Delaware, the region, and the U.S. from 2003 through 2010.

### Unemployment Rates

| | Delaware | Mid-Atlantic Region(1) | United States |
|---|---|---|---|
| 2003 | 4.2% | 5.8% | 6.0% |
| 2004 | 3.9 | 5.3 | 5.5 |
| 2005 | 4.0 | 4.8 | 5.1 |
| 2006 | 3.5 | 4.5 | 4.6 |
| 2007 | 3.5 | 4.3 | 4.6 |
| 2008 | 4.9 | 5.2 | 5.8 |
| 2009 | 8.0 | 8.3 | 9.3 |
| 2010 | 8.5 | 8.7 | 9.6 |

Sources: U.S. Department of Labor and Delaware Department of Labor.

(1) Mid-Atlantic Region consists of Delaware, Maryland, New York, New Jersey and Pennsylvania.

In the most recent month for which data are available, April 2011, Delaware's unemployment rate of 8.2 percent was tied for 26th lowest in the nation. In the surrounding states, Maryland was 13th at 6.8 percent, New York was 23rd at 7.9, Pennsylvania was 18th at 7.5, and New Jersey was tied for 35th at 9.3 percent.

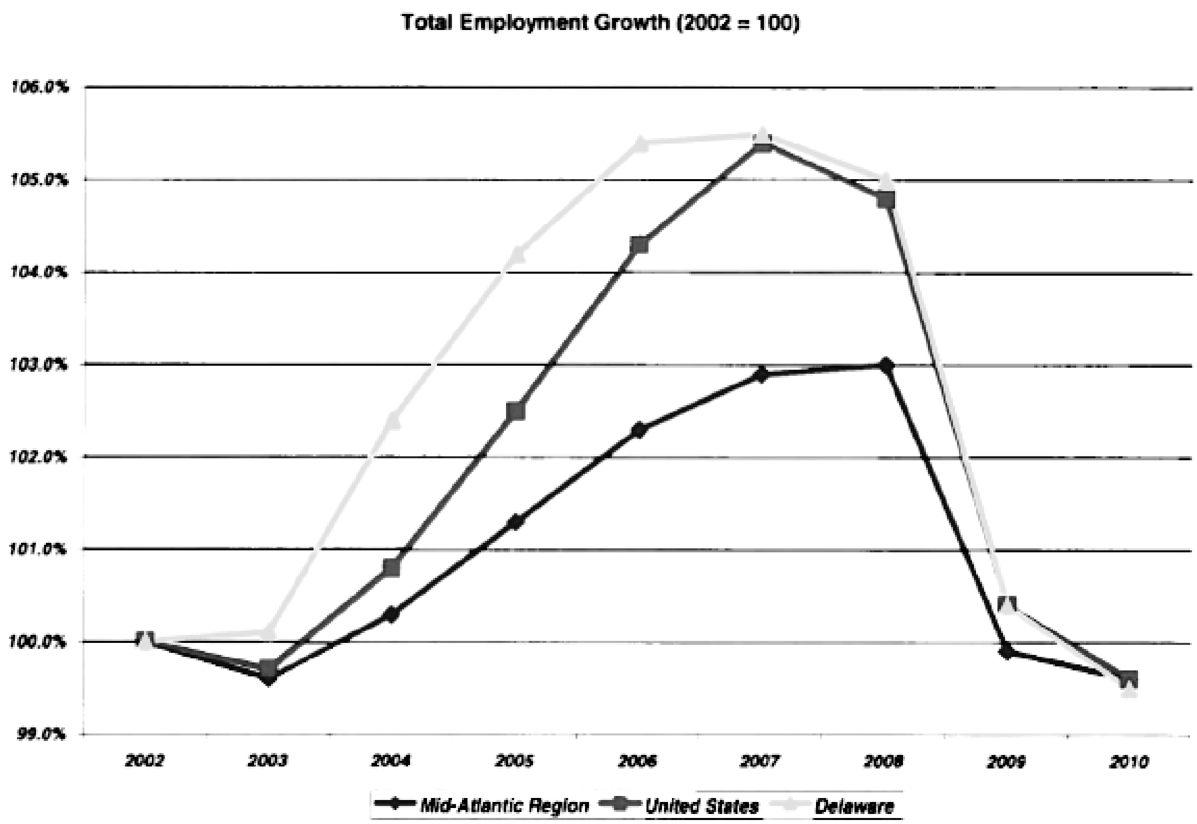
**Employment**

The rate of non-agricultural job losses in Delaware slowed to 0.9 percent in 2010. There were also job losses in the region and the nation of 0.3 percent and 0.8 percent, respectively.

**Non-Agricultural Employment Growth Rates - %**

| | Delaware | Mid-Atlantic Region | United States |
|---|---|---|---|
| 2002 | (1.1)% | (0.9)% | (1.1)% |
| 2003 | 0.1 | (0.4) | (0.3) |
| 2004 | 2.3 | 0.7 | 1.1 |
| 2005 | 1.8 | 1.0 | 1.7 |
| 2006 | 1.2 | 1.0 | 1.8 |
| 2007 | 0.1 | 0.6 | 1.1 |
| 2008 | (0.5) | 0.1 | (0.6) |
| 2009 | (4.6) | (3.1) | (4.4) |
| 2010 | (0.9) | (0.3) | (0.8) |

Sources: U.S. Department of Labor and Delaware Department of Labor.




Source: Delaware Department of Labor

In terms of employment, Government remained the single largest industry sector in Delaware in 2010. Total employment across all federal, state and local government entities averaged 62,800 over the year, an increase of 500 jobs over 2009. Among private industry sectors, Health Care and Social Assistance remained as the state's largest industry sector with 57,300 jobs; Retail Trade was again the second-largest with 49,500.

Four private industry sectors and Government added jobs in 2010: Health Care and Social Assistance (+900); Accommodation and Food Services (+600); Arts, Entertainment, and Recreation (+600); Government (+500); and Educational Services (+200).

**Employment by Industry Sector**
(in thousands)

| | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|
| Construction | 27.9 | 29.3 | 27.7 | 25.1 | 20.0 | 19.3 |
| Manufacturing | 33.2 | 33.5 | 33.4 | 31.7 | 27.9 | 26.2 |
| Wholesale Trade | 14.9 | 15.1 | 14.9 | 14.6 | 13.2 | 12.5 |
| Retail Trade | 53.5 | 53.6 | 54.3 | 53.0 | 49.7 | 49.5 |
| Transportation, Warehousing and Utilities[1] | 13.3 | 13.8 | 14.0 | 13.6 | 12.4 | 11.9 |
| Information | 6.7 | 6.7 | 6.9 | 7.0 | 6.5 | 6.0 |
| Finance and Insurance | 38.7 | 38.2 | 38.8 | 39.0 | 38.0 | 37.1 |
| Professional, Scientific and Tech. Services | 27.0 | 25.8 | 25.1 | 25.7 | 24.2 | 23.7 |
| Management of Companies | 12.5 | 12.0 | 11.5 | 10.8 | 10.1 | 9.5 |
| Administrative and Support Services | 23.0 | 23.4 | 23.4 | 23.1 | 21.3 | 21.3 |
| Educational Services | 6.8 | 7.3 | 7.4 | 7.4 | 7.3 | 7.5 |
| Health Care and Social Assistance | 48.8 | 50.6 | 52.6 | 55.2 | 56.4 | 57.3 |
| Arts, Entertainment and Recreation | 8.8 | 8.8 | 8.2 | 8.1 | 7.8 | 8.4 |
| Accommodation and Food Services | 31.8 | 32.2 | 32.5 | 33.0 | 32.9 | 33.5 |
| Other Services | 19.8 | 20.3 | 20.4 | 20.3 | 19.8 | 19.7 |
| Government | 59.4 | 60.6 | 61.2 | 62.1 | 63.3 | 63.8 |
| Total Nonfarm Employment | 432.7 | 437.8 | 438.3 | 436.1 | 416.6 | 412.7 |

1 Combines the industry sector Transportation and Warehousing with the sector Utilities.

Source: Delaware Department of Labor.

**Chemical and Advanced Materials Industry**

In Delaware, the business of chemistry is a vital part of the economy. Chemicals represent the leading export category for the State accounting for about 52% of Delaware's total manufactured exports. The chemical manufacturing industry is an historical cluster in Delaware with more than a 200 year local history. The requirement for rapid chemical and material innovations has diversified and today thousands are employed in this vital industry.

In Delaware the chemistry industry is diverse, going beyond the manufacturing of chemicals and includes advanced materials, instrumentation, research and development, marketing, distribution, intellectual property, and other capabilities that distinguish industry segments. Companies in Delaware are meeting the challenge for the future as they continue to innovate for growth rather than mature and decline.

The importance of the chemical industry to Delaware's economy historically stems from the establishment of E.1. du Pont de Nemours & Co., Inc. ("DuPont") which was founded in 1802. DuPont

(NYSE: DD) is a market-driven, science company and one of the State's largest private employers. Operating globally with over $31 billion in annual sales in 2008, DuPont offers a wide range of innovative products and services for markets including agriculture, nutrition, electronics, communications, safety and protection, home and construction, transportation and apparel. In 2005, DuPont announced that it would invest $80 million in its research and development center near Wilmington with a rich pipeline of products and more projects underway than ever before. The company's growth and productivity strategies for increasing shareholder value are expected to continue to generate strong results.

The global chemical and advanced materials industry is going through some of the most turbulent times in its history. The economic situation remains volatile, but many businesses are beginning to see a more stable environment for a continued recovery. Against this background, Delaware companies arc making sure they are continually improving their processes and developing innovative solutions that meet the specific requirements of markets and consumers. Emerging markets will, however, continue to grow at healthy rates especially sustainability-based production and products.

Ashland Inc. (NYSE: ASH) created a leading specialty chemicals company with the acquisition of Hercules and now serves many of the world's most essential needs and industries. The company now includes three specialty chemical businesses (paper and water technologies, specialty resins, and specialty additives and functional ingredients) which will maintain a significant presence in Delaware especially at the research and technology center.

Dow (NYSE: DOW), which acquired Rohm and Haas, expects that its Delaware site will continue to be responsible for product and process R&D applications and customer support primarily in North America and Europe.

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

Agilent's (NYSE: A) Life Sciences and Chemical Analysis group is a world leading provider of instrumentation, supplies, software and services to life science and chemical analysis markets. The Little Falls Site in Delaware is the major location for the company's chemical analysis measurement R&D, marketing and manufacturing operations. In November 2007, Agilent opened its East Coast Center of Excellence at the company's Delaware facility which employs almost 800.

In 2008, BASF acquired Ciba Specialty Chemicals (NYSE: CSB). The acquisition strengthened the BASF portfolio and expanded BASF's leading position in specialty chemicals, particularly for the plastics and coatings industries as well as for water treatment. Ciba's Delaware operations were developed to serve as its NAFTA business and manufacturing headquarters for the Coating Effects Business Segment. Ciba made significant investments in Delaware over the last 10 years investing more than $200 million in the expansion and modernization of their pigment manufacturing capabilities. BASF is the world's leading chemical company. Its portfolio ranges from oil and gas to chemicals, plastics, performance products, agricultural products and fine chemicals. BASF has more than 95,000 employees and posted sales of almost EUR 62.3 billion in 2008. BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA) and Zurich (AN). BASF has affirmed its commitment to the Newport, Delaware site where they will continue to manufacture high-performance pigments that improve product quality for customers around the world.

INEOS Films, a division of INEOS Group, the third largest chemical company in the world, opened its new rigid films production site in Delaware. Beginning in 2004, INEOS Group purchased a site and building in Delaware City, Delaware and established INEOS Films North American headquarters. Plant renovations began in May 2005 and were completed in phases, culminating with the full production of high quality rigid films now underway. The investment in the new facility was in excess of $30 million.

TA Instruments ("TAI"), a division of Waters Corporation, is the world-wide market leader in the field of thermal analysis and rheology. It provides thermal analysis, rheometry, and microcalorimetry instruments throughout the world which are used primarily in predicting the suitability of polymers, fine chemicals, and viscous liquids for various industrial, consumer goods and health care products. TAI is also a developer and supplier of software-based products that interface with the company's instruments as well as other instruments manufactured by other companies. TAI's division headquarters are located in Delaware where they just completed a $40 million expansion project .

Motech acquired the assets of GE Energy's solar module facility in Newark, Delaware and have announced a company-wide strategy to aggressively pursue new technologies. They plan to double the current workforce and significantly increase output.

Testing Machines, Inc. a leading supplier of material testing equipment recently announced it would relocate its headquarters and manufacturing operations from New York to Delaware.

Chesapeake Green Fuels purchased a defunct biodiesel operation and is putting in capital to get it up and running again. Their chemical process will utilize a different feedstock than the original design, and production volumes are expected to be 5 million gallons annually.

Many other companies in this cluster have been investing in their Delaware facilities. Kuehne Chemical has seen its volumes grow and continues to spend capital at its site. Croda opened its innovation centers creating new state of the art R&D labs as well as a modern commercial center. Corn Products located its new applications and development, technical services and sales facility in the State. The DuPont Experimental Station opened the DuPont Innovation Center, a building designed through a partnership with the State. FMC Biopolymers has invested nearly $8 million to upgrade its operations after selecting the Delaware site over its foreign-based facilities.

**Life Sciences**

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

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

Other private industry investments help drive Delaware's leadership in life sciences, such as AstraZeneca, DuPont, Agilent Technologies and Siemens. DuPont Company launched their Center for Collaborative Research & Education at their Wilmington-based Experimental Station. The Experimental Station is home to the discovery and development of virtually every major DuPont product since 1903 -- including neoprene, nylon, Kevlar(R) and Nomex(R) advanced fibers, Lycra(R) spandex, Tyvek(R) nonwovens, Corian(R) solid surfaces, and Suva(R) refrigerants.

In 1999, AstraZeneca Inc. (NYSE: AZN) ("AZ"), formed by the merger of Stockholm-based Astra AB and London-based Zeneca Group PLC, one of the largest pharmaceutical companies in the world, selected Delaware as its U.S. headquarters. In 2004, AZ opened a state-of-the-art Automated Compound Management Facility (ACMF) at its Wilmington R&D campus. Part of a four-year, $165 million investment in US research facilities, this addition is one of four new AZ drug discovery research facilities of its kind worldwide.

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

In November 2007, Agilent Technologies, the world's largest maker of scientific equipment, opened an 8,000 square foot state-of-the-art demonstration laboratory in Delaware. At Agilent's new Center of Excellence, potential and existing clients will have an opportunity to see its latest machines, run sample tests on them and have a one-on-one opportunity to discuss them with the company's scientists. Agilent's Delaware-based Center of Excellence is the eighth in the world and will revamp the way the company markets its products on the East Coast.

**Research and Development**

Delaware's economy has long been a source of innovation and technological growth. Some of the states most prominent firms, such as Agilent (NYSE: A), AstraZeneca, DuPont and W. L. Gore and Associates, are world renowned for their technical breakthroughs and resulting commercial success. The presence of these firms and others like them, as well as its highly capable research universities, have positioned Delaware as first in the nation for industry investment and research and development as well as high wage service jobs. The Kauffman Foundation and the Information Technology & Innovation Foundation rank Delaware $4^{th}$ overall in the 2008 State New Economy Index, which measures the ability of states to transform from an industrial economic model to one that creates and retains high value-added, high- wage jobs. Delaware has consistently ranked in the top 10 and currently ranks in the top 6 states in the nation for high-wage traded services, foreign direct investment, gazelle jobs, scientists and engineers, patents and industry investment in R&D.

Delaware's high quality workforce and innovative research and development environment provide excellent opportunities for technology-based business growth and fostering entrepreneurial ventures. The State provides a variety of technology resource programs and innovative business development support to enhance commercialization opportunities, such as Delaware's Patent Portfolio. Delaware, through the Delaware Emerging Technology Center (DE ETC), maintains a portfolio of 258 technologies donated from DuPont and former Hercules Corporations for new business creation and expansion. Additionally, the DE ETC offers a Service Provider Network, a Global Resource Information Directory, a Forum, a regional business calendar and twice a year, a Boot Camp and Business Plan Competition, as part of its service offerings to emerging technology entrepreneurs, innovators and small businesses throughout the region.

The University of Delaware's outstanding reputation for research in cooperation with industry is well recognized in many areas. The University's innovative research efforts are illustrated through its partnerships with industry in composite materials, information science, biotechnology, alternative energy, virology and development of genetically engineered vaccines, and agrigenetics, including plant tissue culture research. Through its seven colleges, institutes and various centers, including the Center for Composite Materials, Center for Catalytic Science and Technology, and Center for Climatic Research, the University has fostered growth and development in the chemical, computer, energy, food, agricultural and marine sciences industries.

The University's Institute of Energy Conversion, one of the world's largest thin-film solar cell laboratories performing research and process development for industry, has been designated by the U.S. Department of Energy as a national center of excellence in photovoltaic research and education. The University of Delaware's Center for Composite Materials is one of three partners in an Army Research Laboratory Materials Center of Excellence.

Nemours Biomedical Research, the nation's largest group medical practice devoted to pediatric care, education, and research and headquartered at the Alfred I. DuPont Hospital in Wilmington, Delaware, has more than 40 different research programs and laboratories to support the medical and surgical staff in restoring and improving the health of acutely and chronically ill children. Based on dollars received from the NIH, collectively, Nemours Biomedical Research would rank 16th in overall awards to children's hospitals. According to the American Hospital Association Guide there are about 250 such children's hospitals.

The Delaware Technology Park ("DTP") is part of Delaware's commitment to attracting both established businesses and promising high-tech companies. With a combination of government, academic and industry partners, it is now home to 57 high-tech companies, including the Delaware Biotechnology Institute. The mission behind the Delaware Technology Park is to promote economic development and innovation and, to that end, has developed an integrated system of technology focused facilities and services.

**Biotechnology**

The Delaware Biotechnology Institute (DBI), located in the Delaware Technology Park, is an academic unit of the University of Delaware and a partnership among government, academia and industry to help establish Delaware as a center of excellence in biotechnology and the life sciences. DBI's mission is to build a biotechnology network of people and facilities to enhance academic and private sector research, catalyze unique cross-disciplinary research and education initiatives and to foster the entrepreneurship that creates high quality jobs. DBI's 72,000 square foot research facility is designed to house 170 faculty and student researchers and features 38 laboratories, 6 state-of-the-art research instrumentation centers, and several large and small conference areas.

Some of the companies started at DBI are: the Fraunhofer Center for Molecular Biotechnology, Napro Biopharmaceuticals (now Tapestry Pharmaceuticals), LLuminari, Pharmaleads (now AthenaBio), Neurologix, InfoQuest Systems, NanoSelect and Quantum Leap.

Delaware's investments serve as seed funding for private investments, such as Fraunhofer Center for Molecular Biotechnology's (CMB) recent $3.5 million grant from the Bill & Melinda Gates Foundation to support the development of transmission-blocking vaccines against malaria. Established in July 2001 as a partnership between the Fraunhofer Society in Germany and the State of Delaware, CMB conducts research in the area of plant biotechnology, developing cutting edge technologies to assist the diagnosis, prevention and treatment of human and animal diseases. CMB will use the Gates Foundation funding to produce lifesaving vaccines in non-genetically modified plants. This is the third grant that CMB has received from the Bill & Melinda Gates Foundation, having previously received a $2.7 million award for the development of novel subunit vaccines against influenza and a $1.2 million grant for pre-clinical studies towards the development of a vaccine against African trypanosomiasis.

DBI led Delaware's effort towards gaining Experimental Program to Stimulate Competitive Research (EPSCoR) status with the National Science Foundation's Experimental Program Status Competitive Research. EPSCoR status provides Delaware and 22 other qualifying states and U.S. territories with a better chance for federal funding dollars. Eight federal agencies participate in this program with the National Institutes of Health (NIH) and the National Science Foundation (NSF), two of the most prominent agencies.

Over the past five years, DBI has successfully built a nationally recognized capability in plant molecular biology to better understand the basic processes that control plant development on the genetic level. Combined with the highly regarded genomics-based poultry disease research located at DBI, this newly developed capability has direct applications to serve Delaware's agricultural industry.

Leading-edge interdisciplinary research is at the core of DBI's work. Successful partnerships are already underway involving biology, biochemistry, engineering, marine, materials science and computational biology. Encompassing 12 academic departments at the University of Delaware alone, collaborations are also state-wide, national and international, with the participation of scientists from Delaware State University, Delaware Technical & Community College, and Wesley College. DBI-affiliated researchers are principal investigators in a growing portfolio of federal research grants from NSF, HIH, the U.S. Department of Agriculture (USDA) and numerous other government agencies and private foundations.

To ensure Delaware's continued voice in regional biotechnology industry opportunities, the Delaware BioScience Association (DBA) was formed in 2006. DBA is a non-profit trade association dedicated to promoting and expanding Delaware's bioscience industry by establishing a unified voice in order to accelerate the growth of human, animal, plant, and industrial bioscience, advocating on behalf of the industry in support of public policies that advance bioscience in the State, supporting initiatives that help attract bioscience talent and enterprises to the State, as well as support their retention and growth, and developing and implementing programs that build local, regional, national, and international recognition of and support for Delaware's bioscience industry.

Delaware State University (DSU), an official Historically Black College/University is another proud contributor to Delaware's biotechnology research and technology transfer. In 2009, DSU launched the Center for Integrated Biological and Environmental Research (CIBER) designed as a regional faculty network hub that includes DSU, Wesley College, Delaware Technical & Community College and University of Delaware. Major functions of the center include: (1) identifying funding opportunities and assisting in bringing together groups of researchers in order to secure grants; (2) communicating the availability of and training on the use of research instrumentation and equipment across the network; (3) coordinating the use and maintenance of key common research facilities at DSU; and (4) integrating research and outreach activities for partner institutions.

On March 31, 2009, the University of Delaware reported that the combined efforts have helped enable about 12,000 new jobs in life science in 20 new companies between 1998 and 2007. Over $200 million has been invested and $250 million of grants have been won by DTP companies and DB1.

**Financial Services Industry**

Banks and other financial institutions have been a major focus of Delaware's economic development activity since 1981. In that year, landmark legislation was passed that opened Delaware to interstate banking, modernized the State's banking laws, and permitted the creation of new types of special purpose intermediaries. The 1981 Financial Center Development Act created strong economic incentives for the banking industry in Delaware, including a favorable state tax structure and a market based approach to lending that eliminated restrictive usury caps. These laws continue to create a favorable economic environment for banking. The State subsequently enacted additional legislation in order to sustain the State's competitive advantage in banking. In 1989, the Bank and Trust Company Insurance Powers Act was signed into law which allowed state-chartered banks and trust companies to underwrite and sell various types of insurance. In response to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, the State enacted legislation in 1995 to keep Delaware's banking community competitive and to maintain Delaware's role as a financial services center. In 1995, the State Bank Commissioner issued the "Incidental Powers Regulation", which is designed to keep Delaware competitive by allowing state-chartered banks and trust companies to exercise additional powers incident to a banking corporation. The state tax structure was modernized in 2006 by allowing banks to elect an alternative system based on a three-factor income apportionment for multi-state operations, plus a location benefit tax reflecting the value of utilizing Delaware's banking laws and bank system.

There are currently over 70 banks and trust companies in Delaware, including full-service commercial banks, credit card banks, non-deposit and limited purpose trust companies, wholesale banks, and federal and state savings banks. Banking is one of the State's largest private industry sector employers, with over 25,650 employees as of December 2010, according to the Delaware Department of Labor. Credit cards are a major industry. Prominent credit card issuers in Delaware include Bank of America, Chase Bank (USA), Discover Bank and Barclays Bank Delaware. Other major bank employers include Wilmington Trust/M&T, PNC, ING Direct, Citigroup and HSBC. During the fiscal year ending June 30, 2010, the bank franchise tax contributed $54.0 million, about 1.7% of the State's total revenues.

**Construction**

During 2010, Delaware's housing production totaled 3,169 units. The following table outlines total housing production in the State by county for 2006 through 2010. Housing production includes single and multifamily, public and private housing, as well as mobile homes. In 2010, single family housing (including condominiums) represented 89% of total production, and multifamily units represented 11%.

**Production of Housing Units**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| New Castle County | 1,752 | 1,314 | 822 | 794 | 608 |
| Kent County | 1,840 | 1,282 | 988 | 774 | 787 |
| Sussex County | 3,086 | 2,347 | 1,536 | 1,555 | 1,560 |
| Mobile Homes* | 1,203 | 752 | 524 | 344 | 214 |
| Total | 7,881 | 5,695 | 3,870 | 3,467 | 3,169 |

* Mobile homes sales data is from the Delaware Division of Motor Vehicles (DMV). As of 2007, the DMV is collecting this data on the fiscal year rather than the calendar year, as in years past. Please keep this in mind when comparing data.

Source: Delaware State Housing Authority.

**Automotive Industry**

In October 2009, Fisker Automotive, a start-up automaker, announced the acquisition of GM's Wilmington Boxwood Road Assembly Plant to build plug-in hybrid electric cars. Financed with the help of a $528 million U.S. government loan, Fisker, of Irvine, California, plans to produce the "Nina", a family sedan that sells for $39,900 after federal tax credits. Fisker expects to build as many as 100,000 electric hybrid sedans and also plans to shift production of its $87,900 Karma coupe, now made in Finland, to Boxwood Road in 2012. The plant is expected to employ 2,500 workers by 2012, with 650 on the job in 2011.

**Incorporations**

As of December 2010 the total number of business entities registered with the Delaware Division of Corporations exceeded 909,000. More than 117,000 new business entities were formed in Delaware in 2010. The State continues to be the corporate home of over half of all publicly-traded firms in the United States. Delaware is the legal domicile of more than 63% of the companies listed in the "Fortune 500". Delaware leads the nation in per capita business entity filings and has ranked among the top five states in the nation for new business entity formations since 1989. The principal driver of this growth over the long term has been the popularity of alternative business entities, such as Delaware limited liability companies.

Since 1985, significant changes have been made to Delaware's corporate laws, specifically in such important areas as directors' liability and corporate takeovers. In addition to the option of forming a Delaware corporation, the Delaware Code enables businesses to form as general partnerships, limited partnerships, limited liability companies and statutory trusts. Businesses may also qualify as limited liability partnerships or limited liability limited partnerships. These changes, combined with a well-developed body of case law; prompt resolution of commercial and corporate disputes by Delaware's Court of Chancery; and efficient, friendly service from the Delaware Division of Corporations have resulted in significant business formation activity.

In order to sustain its competitive edge over other states and countries, Delaware continues to adopt statutes that respond to changing business conditions. A 2003 law extends the corporate jurisdiction of the Court of Chancery to include jurisdiction over commercial technology disputes and allows the Court to mediate many types of complex business disputes, providing a more cost-effective, confidential, and consensual method for resolving litigable disputes. Laws passed in 2004 and 2005 provide incentives for businesses to locate headquarter services or captive insurance operations in Delaware. Recent laws simplify the process of converting from one type of business entity to another type of entity. The Division of Corporations continues to enhance its services by offering 1-hour processing service and expanding Internet services to allow businesses to reserve corporate names, access general corporate information and file annual tax returns. All of these enhancements provide further incentives for entrepreneurs, businesses and investors to make Delaware their legal home.

Revised Article IX of the Uniform Commercial Code (UCC) took effect in most U.S. states in 2001 and provided that many UCC documents should be filed in the debtor's state of incorporation. In July 2001, Delaware became one of the first states to allow for the filing of UCC information via the Internet. In calendar year 2010, the Division of Corporations processed 352,705 UCC filings and searches. General fund revenue from UCC transactions totaled $14.1 million in fiscal year 2010 and is projected to increase to $16.2 million in fiscal year 2011.

The Division of Corporations collects and disburses certain recording, courthouse municipality, statutory trust and UCC fees on behalf of the State's three counties (New Castle County, Kent County and Sussex County) and three county seats (City of Wilmington, City of Dover and Town of Georgetown). In fiscal year 2010, the Division disbursed $10.4 million of such fees to the State's three counties and three county seats. Such revenues are set aside and are not counted within the State's general fund figures.

**Agriculture**

Agriculture is a very significant industry in Delaware. In 2009, there were 2,480 farms, and land in farms, at 490,000 acres, accounted for 39% of Delaware's total land area. Farm size averaged 198 acres.

In 2009, the total market value of agricultural land and buildings was $4.36 billion, and the average value per farm was $1,758,000. The average market value per acre of farmland and buildings in Delaware is $8,900, four times the national average of $2,100. Only four states had a higher value per acre of farm real estate. The average value per acre dropped $1,400 per acre from 2008.

In 2009, the value of agricultural sector production was $1.17 billion and Delaware agricultural farmers cash receipts were $1.01 billion for all commodities. Cash receipts were below the record high set in 2008 of $1.04 billion.

Delaware's 2009 net farm income increased 3% from the 2008 level of $188 million to $194 million. Production increases in various crops and revenues from services were responsible for the in net farm income.

In 2009, Delaware ranked 1st in the United States in both the agricultural production value per farm ($472,788) and per acre ($2,393) as well as cash receipts per acre at $2,061 and net farm income per acre at $394. Delaware ranks 3rd nationally in the number of equine per county and equine-related expenditures in Delaware are estimated at $280 million annually. Delaware is ranked 1st in lima bean acreage and 8' in value of broiler production.

The cash receipts from Delaware farms as compared to the U.S. total in 2005-2009 are outlined in the table below.

**FARM CASH RECEIPTS**

| | DELAWARE | | | | UNITED STATES | |
|---|---|---|---|---|---|---|
| Year | Livestock & Livestock Products | Crops | Total Cash Receipts | Change from Previous Year | Total Cash Receipts | Change from Previous Year |
| | ---------million dollars------- | | | percent | billion dollars | percent |
| 2005 | 786 | 152 | 938 | 2.6 | 240.8 | 1.2 |
| 2006 | 654 | 158 | 812 | (13.0) | 240.6 | (0.1) |
| 2007 | 790 | 188 | 978 | 20.0 | 288.5 | 19.9 |
| 2008 | 781 | 261 | 1,042 | 6.5 | 318.3 | 10.3 |
| 2009 | 771 | 239 | 1,010 | (3.0) | 283.4 | (11.0) |

Sources: Delaware Department of Agriculture and National Agricultural Statistics Service/USDA.

**The Port of Wilmington**

The Port of Wilmington (the "Port") is one of the two largest importers of containerized bananas and other fruit in the world and is a significant east coast importer of: break bulk fruit, juice and produce, particularly winter Chilean fruit, citrus products from Morocco, juice concentrate and fruit from Argentina and liquid bulk juice concentrate from Brazil. Other notable break bulk items moving over the Port's piers include: steel, lumber, paper liner board, dry bulk and liquid petroleum products. The Port has also established a niche in handling specialized cargo such as large wind turbines, dismantled distillation and chemical plants, generators, and livestock export. The Port continues to be a major point of consolidation and export of vehicles to the Middle East, Africa and Central and South America.

The Port has a central location on the east coast and excellent access to rail and highway transportation systems. Warehouse facilities include 250,000 square feet of dry and 750,000 square feet of modern temperature controlled refrigerated space. The combination of relatively new facilities, operational experience, proximity to transportation networks and a skilled labor force has made the Port among the most successful ports in the very competitive mid-Atlantic and Northeast region.

Founded in 1923, the Port is owned and operated by the Diamond State Port Corporation ("DSPC"). In June 1995, the General Assembly authorized the creation of the DSPC, a membership corporation with the Department of State as the sole member, for the purpose of acquiring and operating the Port. On September 1, 1995, DSPC acquired substantially all of the Port's assets from the City of Wilmington. Under the terms of that agreement, DSPC agreed to make payments to the City equal to $39.9 million over a 30- year period and to pay amounts equal to total debt service on approximately $51.0 million of indebtedness previously incurred by the City for Port related assets. The Delaware Transportation Authority's Transportation Trust Fund has loaned funds to the DSPC to enable it to restructure certain of the DSPC's debt and to fund certain capital projects. The Delaware River and Bay Authority has participated with DSPC to fund a refrigerated warehouse in 2006. Bank of America and

Wilmington Trust Company have both loaned funds to DSPC for equipment purchases. DSPC does not have the power to pledge the credit of the State. The total long-term debt of the DSPC outstanding as of June 30, 2010 was $32.4 million.

In fiscal 2010, a total of 4.2 million tons of cargo passed through the Port's facilities, equal to the total tons handled in fiscal 2009. Due to the difficult economic environment, cargo tonnage for most revenue generating items declined by roughly 9%, leading to a decrease in operating revenue of 3.5% from $29.2 million to $28.2 million. Petroleum liquid bulk imports increased 0.5 million tons to 1.4 million tons. Lease revenue increased from $5.1 million in fiscal 2009 to $5.4 million in fiscal 2010. Over $167 million has been provided by the State through fiscal 2010 for Port infrastructure improvements and debt restructuring. The Port is not required to repay these funds.

The Port is part of the State's financial reporting entity and is considered an enterprise fund for the State's GAAP financial reporting purposes. See "Appendix C - Notes to the Financial Statements-#6, Revenue Bonds".

**Dover Air Force Base**

The federal government maintains a major U.S. Air Force base (the "Base") in Dover, Delaware. The 3,900 acre Base, established in 1941, is the nation's busiest military cargo terminal and a key airlift center. It is home to the 436th Airlift Wing, known as the "Eagle Wing" and the 512th Airlift Wing, referred to as the "Liberty Wing". The 436th Airlift Wing provides command and support functions for assigned airlift operations, permitting worldwide movement of outsized cargo (including the military's largest tanks and heaviest weapons and equipment) and personnel. The unit flies Lockheed C-5 Galaxy transport planes, known as "the free world's largest airlifter" and C-17 Globemaster. Together with the 512th Airlift Wing, aircrews from Dover fly an air fleet that comprises 25% of the nation's strategic airlift capacity. In addition, the Base hosts the Charles C. Carson Center for Mortuary Affairs, the defense department's largest joint-service mortuary facility and the only one located in the continental U.S. There are currently approximately 6,800 military personnel — 3,900 active duty, 1,900 reservists, and 1,000 civilians — who work at the Base. It is estimated that, as of September 30, 2009, the economic impact of the Base on the local economy is $528.8 million annually.

## STATE FINANCIAL OPERATIONS

The State controls and records its financial transactions on a cash basis of accounting for its day-to-day operations in accordance with the various budgets and statutes passed by the General Assembly and approved by the Governor. See "FINANCIAL STRUCTURE Budgetary Control and Financial Management Systems". The State's audited June 30, 2010, Basic Financial Statements as set forth in Appendix C, were prepared in accordance with accounting principals generally accepted in the United States of America (GAAP) using both the modified accrual basis and full accrual basis of accounting. The following discussion of State finances relates to the budgetary General and budgetary Special Funds of the State, as more fully set out in the financial statements included under Appendix C hereto.

**Revenue and Expenditure Forecasting**

The Delaware Economic and Financial Advisory Council ("DEFAC"), created in 1977, is comprised currently of 34 members appointed by the Governor. Current members of DEFAC include five cabinet-level officials, the State Treasurer, the Controller General, one other governmental official, six legislators, and 20 private citizens from the business, financial and academic communities.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly budgetary General Fund and Transportation Trust Fund revenue forecasts six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, not later than October I. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June. The various DEFAC forecasts contained in this Appendix A were provided as of June 16, 2011.

These revenue and expenditure forecasts are used in the State budget process to ensure compliance with the State's constitutional limits on spending and statutory debt limitations. See "FINANCIAL STRUCTURE - Appropriation Limit" and "Debt Limits". The subcommittees of DEFAC are the Expenditure and Revenue subcommittees, which meet prior to the DEFAC meetings. The full DEFAC meetings are open to the public and provide a general forum for members of the private and public sectors to exchange views on matters of economic and fiscal concern for the State.

DEFAC relies on projections of national economic trends, Global Insight, Inc. (formerly DR1-WEFA), the Department of Finance's econometric model, projections generated by the Department of Transportation, its members' knowledge of the State's particular economic strengths, and its members' understanding of the structure of the State's revenue system. Comparison of DEFAC's forecasts of budgetary General Fund revenue with actual year-end revenue are reviewed in the following table. These forecasts were generated 18 months and 9 months prior to the end of each fiscal year. DEFAC does not project the revenue impact of legislation until after its enactment.

**DEFAC Budgetary General Fund Revenue Projections**
(in millions)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| 18 Months Before Fiscal Year-End | $2,882.6 | $3,140.4 | $3,367.8 | $3,524.1 | $2,937.7 |
| 9 Months Before Fiscal Year-End | 3,019.7 | 3,280.3 | 3,390.0 | 3,411.7 | 3,143.1 |
| Actual Fiscal Year-End Revenue | 3,169.9 | 3,290.2 | 3,356.7 | 3,148.0 | 3,235.1 |

**Economic Projections**

Based upon national forecasts by Global Insight, Inc. in June 2011, the State's economy is expected to mirror the performance of the broader U.S. economy, which has been in modest recovery since the recession ended June 2009. The following chart compares forecasted population, employment and personal income growth rates for fiscal 2011 through 2013 for Delaware and the United States, considered by DEFAC in making its revenue forecasts as presented herein.

**Projected Economic Growth Rates**

| | Delaware | | | United States | | |
|---|---|---|---|---|---|---|
| | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 |
| Population Growth | 1.4% | 1.4% | 1.4% | 1.0% | 1.0% | 1.0% |
| Employment Growth | 1.0 | 1.5 | 1.7 | 0.6 | 1.6 | 1.5 |
| Personal Income Growth | 4.5 | 3.7 | 3.4 | 4.1 | 4.4 | 3.8 |

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

**Revenue Summary - Fiscal 2011E - Fiscal 2013E**

The following table and chart include DEFAC's forecast of budgetary General Fund revenue from all sources as of June 16, 2011, for fiscal 2011, fiscal 2012 and fiscal 2013. DEFAC forecasts

General Fund revenue growth of 9.5%, 2.01% and 2.9% for fiscal years 2011, 2012 and 2013, respectively. See "Fiscal Year Ending June 30, 2011".

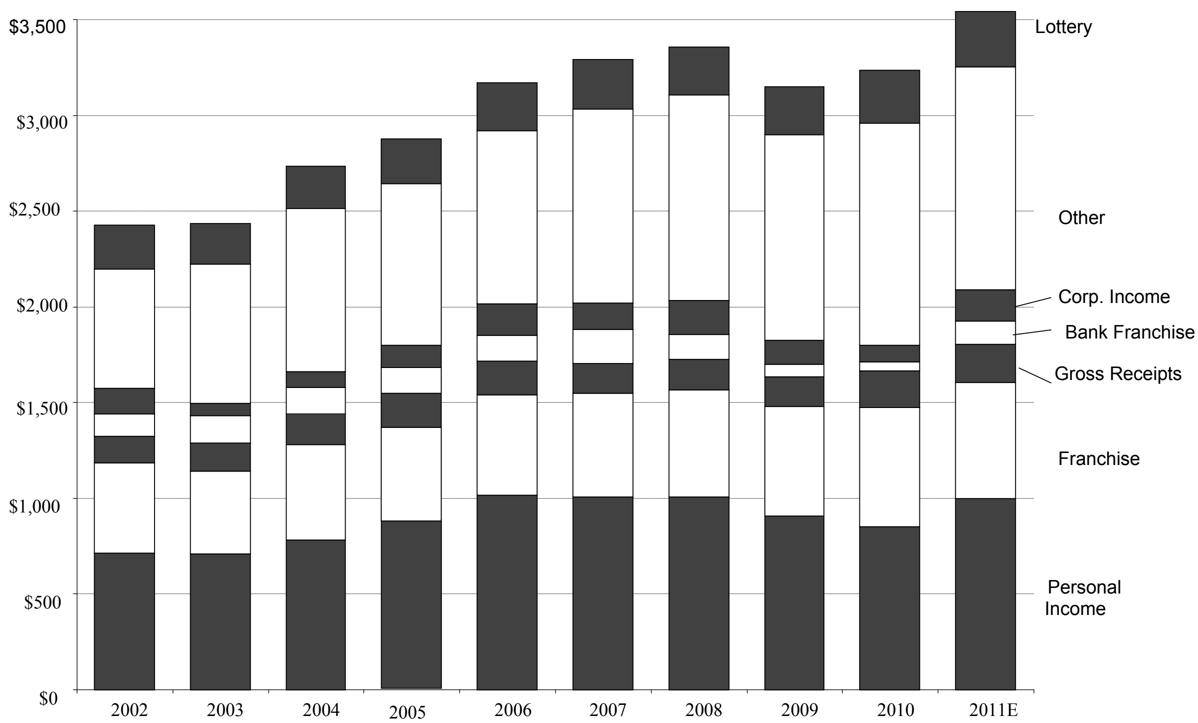
**Budgetary General Fund Revenue**
(in millions)

| | DEFAC Forecasts as of June 16, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Fiscal 2011 | | Fiscal 2012 | | Fiscal 2013 | |
| | Forecast | Change | Forecast | Change | Forecast | Change |
| Personal Income Tax | 1,176.7 | 10.9% | 1,248.2 | 6.1% | 1,313.8 | 5.3% |
| Less: Refunds | -177.5 | -14.8% | -187.8 | 5.8% | -197.2 | 5.0% |
| PIT Less Refunds | 999.2 | 17.1% | 1,060.4 | 6.1% | 1,116.6 | 5.3% |
| Franchise Tax | 616.0 | -2.7% | 616.0 | 0.0% | 616.0 | 0.0% |
| Limited Partnerships & LLC's | 156.8 | 8.2% | 164.6 | 5.0% | 172.9 | 5.0% |
| Subtotal Franchise Tax and Limited Partnerships & LLCs | 772.8 | -0.7% | 780.6 | 1.0% | 788.9 | 1.1% |
| Less: Refunds | -10.9 | -16.1% | -11.0 | 0.9% | -11.0 | 0.0% |
| Net Franchise Tax and Limited Partnerships & L.LCs | 761.9 | -0.4% | 769.6 | 1.0% | 777.9 | 1.1% |
| Business Entity Fees | 82.8 | 10.6% | 86.9 | 5.0% | 91.3 | 5.1% |
| Uniform Commercial Code | 16.4 | 16.0% | 16.9 | 3.0% | 17.4 | 3.0% |
| Corporation Income Tax | 222.0 | 76.8% | 175.0 | -21.2% | 182.6 | 4.3% |
| Less: Refunds | -55.0 | 45.9% | -36.8 | -33.1% | -38.6 | 4.9% |
| ar Less Refunds | 167.0 | 90.1% | 138.2 | -17.2% | 144.0 | 4.2% |
| Bank Franchise Tax | 119.3 | 120.9% | 110.2 | -7.6% | 119.7 | 8.6% |
| Gross Receipts Tax | 200.5 | 3.0% | 218.1 | 8.8% | 229.0 | 5.0% |
| Lottery | 289.0 | 4.9% | 276.9 | -4.2% | 268.0 | -3.2% |
| Abandoned Property | 432.5 | -12.3% | 480.0 | 11.0% | 480.0 | 0.0% |
| Hospital Board and Treatment | 70.0 | -6.2% | 68.2 | -2.6% | 66.0 | 3.2% |
| Dividends and Interest | 8.5 | -22.0% | 9.0 | 5.9% | 9.5 | 5.6% |
| Realty Transfer Tax | 44.0 | -6.1% | 31.2 | -29.1% | 32.8 | 5.1% |
| Estate Tax | 15.0 | 5002.0% | 20.0 | 33.3% | 21.2 | 6.0% |
| Insurance Taxes | 70.6 | 36.2% | 71.1 | 0.7% | 71.5 | 0.6% |
| Public Utility Tax | 57.5 | 1.4% | 59.5 | 3.5% | 61.6 | 3.5% |
| Cigarette Taxes | 128.7 | -2.7% | 127.4 | -1.0% | 126.1 | -1.0% |
| Other Revenues | 129.5 | 49.8% | 117.0 | -9.7% | 123.4 | 5.5% |
| Less: Other Refunds | -49.7 | 33.4% | -47.0 | -5.4% | -35.8 | -23.8% |
| Total(1) | 3,542.7 | 9.5% | $3,613.6 | 2.0% | $3,720.2 | 2.9% |

(1) May not equal the sum of its components due to the rounding of actual amount.

The following chart shows both the growth in and source of budgetary General Fund revenues since 2002 and provides estimates for fiscal 2011.

**Budgetary General Fund Revenue at June 30**
**(in millions)**




**Expenditure Summary - Fiscal 2008- Fiscal 2011E**

The following table compares total budgetary General Fund expenditures by major departments for the past three fiscal years ending with fiscal 2010 and estimated expenditures for fiscal 2011. These figures include supplemental appropriations for capital projects. See also "BUDGETARY GENERAL FUND SUMMARIES - Budgetary General Fund Disbursements by Category of Expense."

## Budgetary General Fund Expenditures
(in millions)

| | Fiscal 2008 | Change | Fiscal 2009 | Change | Fiscal 2010 | Change | Fiscal 2011E[(1)] | Change |
|---|---|---|---|---|---|---|---|---|
| Correction | $263.2 | 4.4% | $256.6 | (2.5)% | $238.0 | (7.2)% | $243.5 | 2.3% |
| Health and Social Services | 918.7 | 7.8 | 832.9 | (9.3) | 821.4 | (1.4) | 891.6 | 8.5 |
| Higher Education | 253.0 | (0.3) | 252.4 | (0.2) | 227.3 | (9.9) | 212.5 | (6.5) |
| Public Education | 1,132.6 | 4.0 | 1,163.1 | 2.7 | 1,116.9 | (4.0) | 1,044.2 | (6.5) |
| Safety & Homeland Security | 126.5 | 4.7 | 124.2 | (1.8) | 117.9 | (5.1) | 123.9 | 5.1 |
| Services to Children, Youth & Their Families | 135.3 | 2.8 | 127.1 | (6.1) | 118.2 | (7.0) | 125.5 | 6.2 |
| Other Expenditures | 592.3 | (14.1) | 539.2 | (9.0) | 436.8 | (19.0) | 664.1 | 52.0 |
| Total | $3,421.6 | 0.9% | $3,295.5 | (3.7)% | $3,076.5 | (6.6) | $3,305.3 | 7.4 |

(1) Based on fiscal 2011 budget.

The table below depicts trends in State expenditures by the three major components; i.e., budgetary General Fund base budget for operations, supplemental appropriations for one-time capital projects and debt reduction, and the effect of the carryover of these unspent capital funds on the overall spending levels. The nature of capital projects tends to delay the actual expenditure of capital funds to fiscal years subsequent to the fiscal year in which they were appropriated.

## Adjusted Budgetary General Fund Expenditures
(in millions)

| | 2008 | Change | 2009 | Change | 2010 | Change | 2011E | Change |
|---|---|---|---|---|---|---|---|---|
| Base Budget | $3,141.8 | 5.9% | $3,066.9 | (2.4)% | $3,091.5 | 8.0% | $3,305.3 | 6.9% |
| Supplemental Appropriations | 81.7 | (60.9)% | 76.2 | (6.7)% | 35.4 | (53.5)% | 126.2 | 256.5 |
| Prior Year Carryover | 198.1 | (7.5)% | 152.4 | (23.1)% | (50.3) | (133.0)% | (115.2) | 129.0 |
| Total | $3,421.6 | .94% | $3,295.5 | (3.7)% | $3,076.6 | (6.6)% | $3,316.3[(1)] | 7.8 |

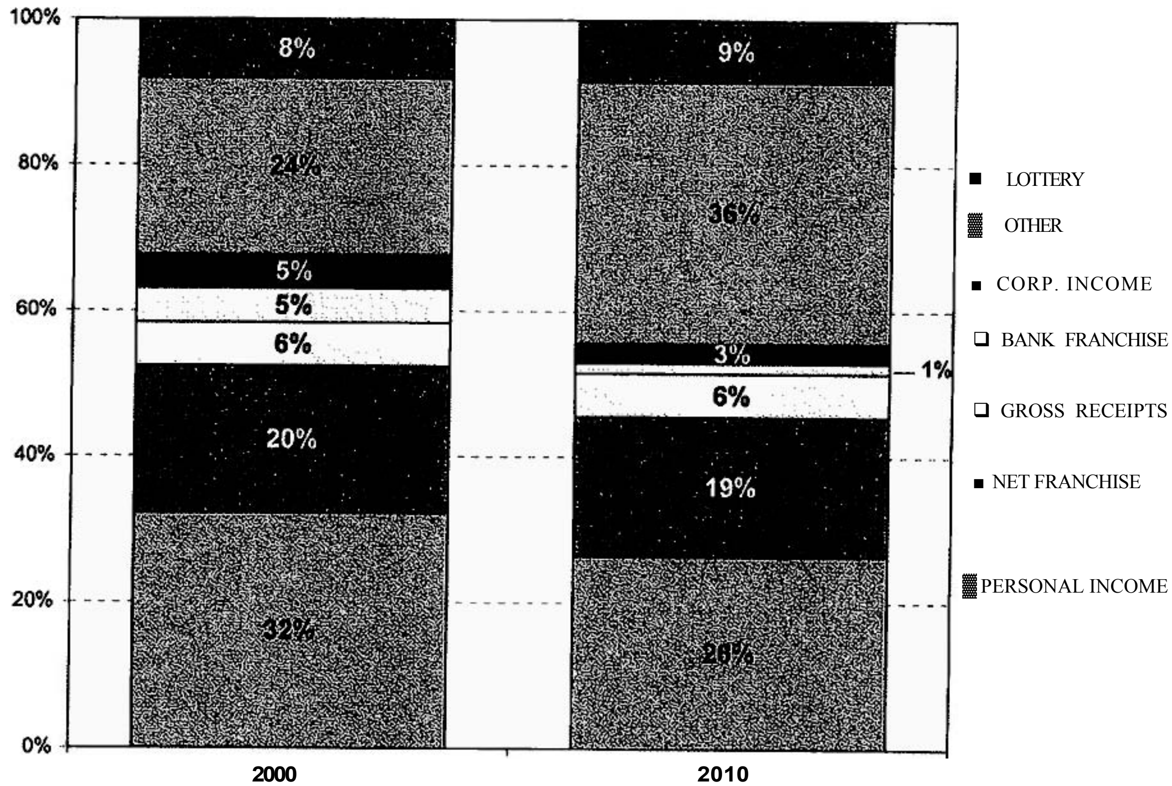
(1) Per June 16, 2011 DEFAC revenue and expenditures projections.

Note: Totals may not add due to rounding.

### Sources and Uses of State Funds

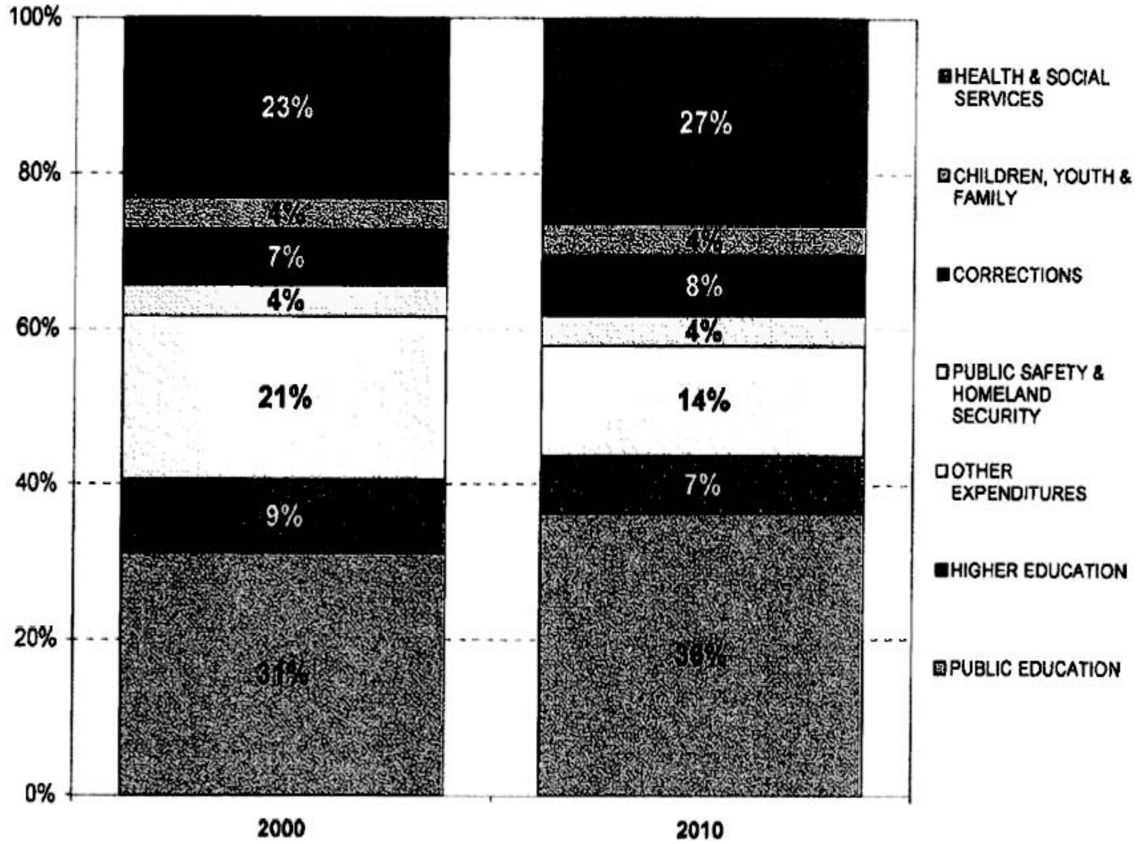
The distribution of budgetary General Fund revenues and appropriations is shown in the following bar charts, which compare fiscal 2010 with ten years earlier.

## SOURCES




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

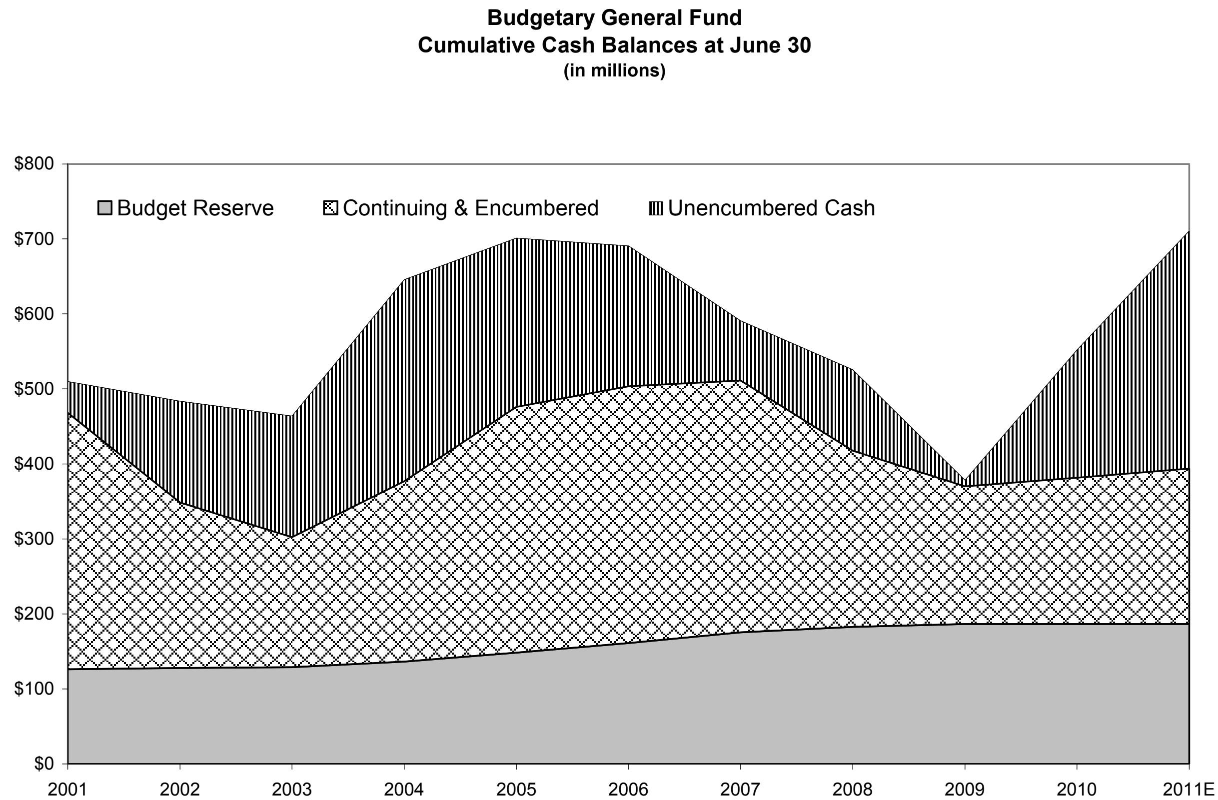
## USES




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

## CUMULATIVE CASH BALANCES

The following graph reflects growth in the Budget Reserve Account and the changes in continuing and encumbered appropriations and the cumulative cash balances from fiscal 2001 to fiscal 2011.




## FISCAL YEAR ENDED JUNE 30, 2009

The State ended fiscal 2009 with a cumulative cash balance of $378.5 million. This balance represented 11.5% of the State's expenditures for the year. The Budget Reserve Account remained fully funded for the fiscal year, totaling $186.4 million. An additional $183.7 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2009 of $8.4 million.

### Revenue

Net budgetary General Fund revenue for fiscal 2009 totaled $3,148.0 million, a 6.2% decrease from fiscal 2008.

**Personal income taxes**, after refunds, were $910.6 million, a decrease of 9.6% from fiscal 2008.

**Franchise and Limited Partnership/LLC taxes**, after refunds, were $704.3 million, of which $567.2 million relates to Franchise Taxes, a 1.7% increase over fiscal 2008.

**Business entity fees** were $50.8 million, a 19.8% decrease from fiscal 2008.

**Corporate income taxes**, after refunds, totaled $126.5 million, a 29.1% decrease from fiscal 2008. Bank franchise taxes totaled $81.9 million, a 36.85% decrease from fiscal 2008.

**Business and occupational gross receipts taxes** were $157.9 million, a 2.6% decrease from fiscal 2008. Fiscal 2009 included a gross receipts tax increase which became effective on January 1, 2009.

**Lottery revenue** totaled $248.0 million, down 1.8% from fiscal 2008.

**Abandoned property revenue** totaled $392.1 million, a 4.4% increase over fiscal 2008. Expenditures

**Expenditures**

Budgetary General Fund expenditures for fiscal 2009 totaled $3,295.5 million, a 3.7% decrease from fiscal 2008. The fiscal 2009 budgetary General Fund operating budget totaled $3,362.9 million, a 2.4% increase over fiscal 2008. Grants-in-aid appropriations of $45.2 million and the budgetary General Fund contribution to the capital budget of $83.4 million brought total appropriations to $3,491.5 million. The appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

**Balances**

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal 2009.

**Budgetary General Fund Balances - Fiscal 2009**
(in millions)

| | | | | |
|---|---|---|---|---|
| Revenue | | | | $3,148.0 |
| Expenditures | | | | |
| Budget | $3,362.9 | | | |
| Grants | 45.2 | | | |
| Supplemental | 83.4 | | | |
| Total appropriations | | $3,491.5 | | |
| Continued and encumbered (prior years) | | 234.8 | | |
| Total spending authorizations | | | $3,726.3 | |
| Less: Continued and encumbered (present year) | | | (183.7) | |
| Less: Reversions | | | (247.0) | |
| Total expenditures | | | | $3,295.5 |
| Operating balance | | | | (147.5) |
| Prior year cash balance | | | | 526.0 |
| Cumulative cash balance | | | | $378.5 |
| Less: Continued and encumbered (present year) | | | | (183.7) |
| Less: Budget Reserve Account | | | | (186.41 |
| Unencumbered cash balance | | | | $8.4 |

## FISCAL YEAR ENDED JUNE 30, 2010

The State ended fiscal 2010 with a cumulative cash balance of $537.1 million. This balance represented 17.5% of the State's expenditures for the year. The Budget Reserve Account remained fully funded for the fiscal year, totaling $186.4 million. An additional $184.9 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2010 of $165.8 million.

**Revenue**

Net budgetary General Fund revenue for fiscal 2010 totaled $3,235.1 million, a 2.8% increase over fiscal 2009.

**Personal income taxes**, after refunds, were $853.1 million, a decrease of 6.3% from fiscal 2009. The fiscal 2010 total included the impact of a tax increase that took effect midway through the fiscal year on January 1, 2010.

**Franchise and Limited Partnership/LLC taxes**, after refunds, were $765.1 million, an 8.6% increase over fiscal 2009. The fiscal 2010 estimate included the impact of a franchise tax increase that took effect retroactively on January 1, 2009.

**Business entity fees** were $74.9 million, a 47.3% increase over fiscal 2009. The fiscal 2010 total included the effect of several fee increases.

**Corporate income taxes**, after refunds, totaled $87.9 million, a 30.5% decrease from fiscal 2009. Bank franchise taxes totaled $54.0 million, a 34.0% decrease from fiscal 2009.

**Business and occupational gross receipts taxes** were $194.6 million, an 18.6% increase over fiscal 2009. Fiscal 2010 included the effect of two gross receipts tax increases, one of which became effective on January 1, 2009 and the other on January 1, 2010.

**Lottery revenue** totaled $275.5 million, up 11.1% from fiscal 2009. Fiscal 2010 included the first full-year impact of a higher State share of video lottery proceeds as well as the initial year of a new sports

**Abandoned property** revenue totaled $493.2 million, a 25.8% increase over fiscal 2009. Expenditures

**Expenditures**

Budgetary General Fund expenditures for fiscal 2010 totaled $3,076.5 million, a 6.5% decrease from fiscal 2009. The fiscal 2010 budgetary General Fund operating budget totaled $3,091.5 million, an 8.1% decrease from the fiscal 2009 operating budget. Grants-in-aid appropriations of $35.4 million brought total appropriations to $3,126.9 million. The appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

**Balances**

The following table outlines the revenue, expenditures and remaining cash balances for fiscal 2010.

## Budgetary General Fund Balances - Fiscal 2010

(in millions)

| | | | | |
|---|---|---|---|---|
| Revenue | | | | $3,235.1 |
| Expenditures | | | | |
| Budget | $3,091.5 | | | |
| Grants | 35.4 | | | |
| Supplemental | 0.0 | | | |
| Total appropriations | | $3,126.9 | | |
| Continued and encumbered (prior years) | | 183.7 | | |
| Total spending authorizations | | | $3,310.6 | |
| Less: Continued and encumbered (present year) | | | (184.9) | |
| Less: Reversions | | | (49.3) | |
| Total expenditures | | | | $3,076.5 |
| Operating balance | | | | 158.6 |
| Prior year cash balance | | | | 378.5 |
| Cumulative cash balance | | | | $537.1 |
| Less: Continued and encumbered (present year) | | | | (184.9) |
| Less: Budget Reserve Account | | | | (186.4) |
| Unencumbered cash balance | | | | $ 165.8 |

## FISCAL YEAR ENDING JUNE 30, 2011

Based upon the June 16, 2011, DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal 2011 is projected to total $3,542.7 million, a 9.5% increase over fiscal 2010.

**Revenue**

**Personal income taxes**, after refunds, are projected to total $999.2 million, a 17.1% increase over fiscal 2010. The fiscal 2011 estimate includes the impact of a full year of a tax increase that took effect on January 1, 2010.

**Franchise and Limited Partnership/LLC taxes**, after refunds, are projected to total $761.9 million, a 0.4% decrease from fiscal 2010. The fiscal 2011 estimate includes the impact of a full year franchise tax increase that took effect on January 1, 2009.

**Business entity fees** are projected to reach $82.8 million, a 10.6% increase over fiscal 2010. Corporate income taxes, after refunds, are estimated at $167.0 million, a 90.0% increase over fiscal 2010.

**Bank franchise taxes** are projected to total $119.3 million, a 120.9% increase over fiscal 2010.

**Business and occupational gross receipts taxes** are projected to total $200.5 million, a 3.0% increase over fiscal 2010. Fiscal 2011 includes a full year of a tax increase, which took effect on January 1, 2010.

**Lottery revenue** is projected to total $289.0 million, a 4.9% increase from fiscal 2010. Fiscal 2011 includes the first full-year impact of both the sports lottery and table games.

**Abandoned property revenue** is projected to total $432.5 million, a 12.3% decrease from fiscal 2010. Legislation adopted subsequent to DEFAC's June 17, 2010 meeting will add $24 million to expected General Fund abandoned property collections.

**Appropriations**

The fiscal 2011 budgetary General Fund operating budget totaled $3,305.3 million, a 6.9% increase over the fiscal 2010 operating budget. Grants-in-aid appropriations of $35.2 million bring total appropriations to $3,340.5 million. This appropriation package is within the constitutionally-prescribed limit of 98% of estimated revenues.

The fiscal 2011 capital budget totals $389.7 million. Of that amount, $262.8 million is allocated for general obligation capital projects, $127.0 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust Fund. General Fund cash of $91.0 million has been allocated for "pay as you go" capital projects.

**Balances**

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal 2011.

**Projected Budgetary General Fund Balances - Fiscal 2011**
(in millions)

| | | | | |
|---|---|---|---|---|
| Revenue | | | | $3,542.7[(1)] |
| Expenditures | | | | |
| Budget | $3,305.3 | | | |
| Grants | 35.2 | | | |
| Supplemental | 91.0 | | | |
| Total appropriations | | $3,431.5 | | |
| Continued and encumbered (prior years) | | 184.9 | | |
| Total spending authorizations | | | $3,616.3 | |
| Less: Continued and encumbered (present year) | | | (222.5) | |
| Less: Reversions | | | (40.0) | |
| Total expenditures | | | | $ 3.353.8 |
| Operating balance | | | | 188.9 |
| Prior year cash balance | | | | 537.1 |
| Cumulative cash balance | | | | $726.0 |
| Less: Continued and encumbered (present year) | | | | (222.5) |
| Less: Budget Reserve Account | | | | (186.4) |
| Unencumbered cash balance | | | | $317.1[(2)] |

(1)Revenue estimates are per DEFAC's June 16, 2011 forecast.
(2)Totals may not add due to rounding.

In fiscal 2009, the State received $89.9 million for Medicaid funding as a result of the American Recovery and Reinvestment Act of 2009 (the "ARRA"). In fiscal 2010, the State received ARRA funding of $141 million designated for Medicaid, $67.3 million designated for education, both public and higher, and $24.5 million in general stabilization funds for a total of $232.8 million. In fiscal 2011, ARRA funding is expected to be $80.5 million designated for Medicaid and $40 million designated for education for a total of $120.5 million. No additional ARRA funding is expected after fiscal 2011.

## FISCAL YEAR ENDING JUNE 30, 2012

Based upon the June 16, 2011, DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal 2012 is projected to total $3,613.6 million, a 2.0% increase over expected revenue in fiscal 2011. Tax cuts of $25.9 million and other adjustments adopted subsequent to DEFAC's June 16, 2011 meeting are not reflected here.

### Revenue

**Personal income taxes**, after refunds, are projected to total $1,060.4 million, a 6.1% increase over fiscal 2011 estimates. The fiscal 2011 estimate includes the impact of a full year of a tax increase that took effect on January 1, 2010. Effective January 1, 2012, personal income tax revenues will be reduced by an estimated $6.8 million based on a reduction in the highest tax rate from 6.95% to 6.75%.

**Franchise and Limited Partnership/LLC taxes**, after refunds, are projected to total $769.6 million, a 1.0% increase over fiscal 2011 estimates. The fiscal 2011 estimate includes the impact of a full year franchise tax increase that took effect on January 1, 2009.

**Business entity fees** are projected to reach $86.9 million, a 5.0% increase over fiscal 2011 estimates. Corporate income taxes, after refunds, are estimated at $138.2 million, a 17.2% decrease from fiscal 2011 estimates.

**Bank franchise taxes** are projected to total $110.2 million, a 7.6% decrease from fiscal 2011 estimates. Not included in this estimate is a legislative change enacted on June 30, 2011 that is expected to reduce bank franchise taxes in fiscal 2012 by $3.4 million.

**Business and occupational gross receipts taxes** are projected to total $218.1 million, an 8.8% increase over fiscal 2011 estimates. Fiscal 2011 includes a full year of a tax increase, which took effect on January 1, 2010. Recent legislative changes reduced gross receipts tax rates which will result in an expected reduction of $6.2 million in fiscal 2012.

**Lottery revenue** is projected to total $276.9 million, a 4.2% decrease from fiscal 2011 estimates. Fiscal 2011 includes the first full-year impact of both the sports lottery and table games.

**Abandoned property revenue** is projected to total $480.0 million, an 11.0% increase from fiscal 2011. However, legislative adjustments made subsequent to DEFAC's June meeting will reduce this revenue category by $131.0 million.

### Appropriations

The fiscal 2012 budgetary General Fund operating budget totaled $3,508.6 million, a 6.15% increase over the fiscal 2011 operating budget. Grants-in-aid appropriations of $41.2 million bring total appropriations to $3,549.8 million. This appropriation package is within the constitutionally-prescribed limit of 98% of estimated revenues.

The fiscal 2012 capital budget totals $663.9 million. Of that amount, $444.5 million is allocated for general obligation capital projects, $219.5 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust Fund. General Fund cash of $115.3 million has been allocated for "pay as you go" capital projects.

### Balances

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

**Projected Budgetary General Fund Balances - Fiscal 2012**
(in millions)

| | | | | |
|---|---|---|---|---|
| Revenue | | | | $3,613.6[1] |
| Expenditures | | | | |
| Budget | $3,508.6 | | | |
| Grants | 41.2 | | | |
| Supplemental | 115.3 | | | |
| Total appropriations | | $3,665.1 | | |
| Continued and encumbered (prior years) | | 222.5 | | |
| Total spending authorizations | | | $3,887.6 | |
| Less: Continued and encumbered (present year) | | | (250.0) | |
| Less: Reversions | | | (40.0) | |
| Total expenditures | | | | $ 3,597.6 |
| Operating balance | | | | 16.0 |
| Prior year cash balance | | | | 715.3 |
| Cumulative cash balance | | | | $731.3 |
| Less: Continued and encumbered (present year) | | | | (250.0) |
| Less: Budget Reserve Account | | | | (186.4) |
| Unencumbered cash balance | | | | $294.9[2] |

(1)Revenue estimates per DEFAC's June 16, 2011 forecast.
(2)Totals may not add due to rounding.

## TOBACCO SETTLEMENT

A coalition of State Attorneys General negotiated an agreement to settle various states' lawsuits against tobacco manufacturers, in order to recover state funds expended on health care for smokers, consumer fraud and other claims. The master settlement agreement (the "Agreement") entered into by the State and participating tobacco manufacturers in late 1998 is expected to result in significant payments to the State. The size of payments to Delaware is subject to a number of possible offsets and adjustments outlined in the Agreement. Such offsets include, but are not limited to, the reduction in sales of products from participating manufacturers.

The State created a special fund called the "Delaware Health Fund" into which proceeds received as a result of the Agreement are deposited. The General Assembly and the Governor may authorize expenditure of these monies to expand access to health care and health insurance, make long-term investments in State-owned health care infrastructure, promote healthy lifestyles including tobacco, alcohol, and drug prevention, and promote preventive health care for Delawareans. The fund requires an annual appropriation by the General Assembly and is administered by the Secretary of Finance. As of May 31, 2011, approximately $330.5 million has been received by the State from participating manufacturers. At May 31, 2011, the balance in the Delaware Health Fund was $26.5 million, a portion of which will be appropriated through the fiscal 2012 budget process to various health related programs.

# FINANCIAL STRUCTURE

## General

The State budgets and controls its financial activities on the cash basis of accounting for its fiscal year (July 1 to June 30). In compliance with State law, the State records its financial transactions in either of two major categories, the budgetary General Fund or budgetary Special Funds. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with the tax or other revenue allocated to such fund and is charged with the related disbursements. Specific uses of the budgetary Special Funds include State parks operations and fees charged by the Public Service Commission and The Division of Professional Regulation. Federal payments and unemployment compensation are examples of non-appropriated budgetary Special Funds. Some budgetary Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

The Basic Financial Statements in Appendix C hereof have been prepared to conform to the standards of financial reporting set forth by the Governmental Accounting Standards Board (GASB) in its various statements and interpretations. GAAP (as defined below) reporting standards allow the accurate assessment of financial condition and enable the State to present its total fiscal operation in conformity with accounting principles generally accepted in the United States of America (GAAP).

In GAAP reporting, operations of the primary government and component units are recorded under three main fund types - Governmental, Proprietary and Fiduciary, as defined by GASB. The fund types and account groups are described in Note I of the accompanying GAAP Basic Financial Statements in Appendix C. A reconciliation of budgetary General and Special Funds to GAAP is found in the Required Supplementary Information Section of the financial statements in Appendix C.

Capital assets are defined by the State as assets which have a cost of $15,000 or more at the date of acquisition and have an expected useful life of one or more years. All land and buildings are capitalized regardless of cost. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided by GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

## Budget Process

As noted earlier, all disbursements from the budgetary General Fund and certain budgetary Special Funds must be authorized by appropriation of the General Assembly. In the fall of the fiscal year, each State agency submits to the Budget Office a request for operating and capital funds for the ensuing fiscal year. Public hearings on the requests are subsequently conducted. The Governor's proposed operating and capital budgets for the budgetary General Fund and budgetary Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the

Governor's proposed operating and capital budgets, respectively. As amended, the budgets are expected to be passed prior to July I and signed by the Governor shortly thereafter.

State agencies currently participate in a uniform budgeting process whereby each agency submits with its budget request a department mission, key objectives, background and accomplishments, and activities and performance measures. This fully integrated budget submission provides much information to the public as well as to State decision-makers.

Federal funds are not appropriated but are subject to the review and approval of the Office of Management and Budget and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of the Office of Management and Budget, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

**Appropriation Limit**

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue, plus the unencumbered budgetary General Fund balance from the previous year. An appropriation exceeding this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly, but no appropriation may be made exceeding 100% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous fiscal year. In June 2010, the General Assembly authorized appropriations of $3,431.5 million for fiscal 2011, within the projected 98% appropriation limit.

**Budget Reserve Account**

The Budget Reserve Account (commonly referred to as the "Rainy Day Fund") is designed to provide a cushion against unanticipated revenue shortfalls. The State Constitution provides that the excess of any unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account") within 45 days following the end of the fiscal year, provided that the amount of funds in the Budget Reserve Account does not exceed 5% of the estimated budgetary General Fund revenue used to determine the appropriation limit for that fiscal year. Transfers are made in August based on June revenue projections, with consideration given to year-end operating results of the previous fiscal year. Transfers of $186.4 million have been made which fully funded the Budget Reserve Account for fiscal 2011. Money from the Budget Reserve Account may be appropriated only with the approval of a three-fifths vote of the members of each house of the General Assembly and only to fund an unanticipated budgetary General Fund deficit or to provide funds required as a result of the enactment of legislation reducing revenue. No funds have been withdrawn from the Budget Reserve Account since its inception in 1980.

**Tax Limitations**

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due. The amendment requires the State to appropriate, prior to each fiscal year of the State, sums sufficient to meet debt service in the following fiscal year, a practice the State has always followed.

## Internal Control Structure

The State has established and maintains an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that evaluation of costs and benefits requires estimates and judgments by State officials. Determination as to the adequacy of the internal control structure is made within the above framework. State officials believe the State's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions. In the beginning of fiscal 2011, the State fully implemented and upgraded its financial systems to continue to safeguard its assets and properly record its financial transactions.

Disbursements from State funds are controlled by an encumbrance accounting system that is designed to provide information on the actual extent of the State's obligations (as determined by purchase orders issued) and to guard against over-committing available funds. Disbursements are controlled through the encumbrance system in such a way that purchase orders issued for goods and services cause a reduction in available appropriations. As a result, the amount of budgetary General Fund cash disbursements plus unliquidated encumbrances cannot exceed the amount appropriated by the General Assembly for any budget line.

"Available" funds may be set aside through the use of properly issued and approved purchase orders. "Available" funds for the budgetary General Fund means that the funds must be appropriated, and, in general, for budgetary Special Funds means that the cash must be on hand, except for federal grants, the Transportation Trust Fund and bond authorizations. For administrative reasons, certain types of transactions such as salary and fringe benefit expenses, debt service, certain budgetary Special Fund expenses, and purchases under $2,500 do not require a formal encumbrance of funds as a prerequisite to processing expenditure documents.

At fiscal year end, cash is reserved to pay outstanding encumbrances (orders for goods and services not yet received or for which payment has not been made). Budgetary General Fund encumbrances are carried over as encumbered appropriations and paid out and recorded as disbursements in the succeeding fiscal year. All obligations created by purchase orders (encumbered amounts) are liquidated upon satisfactory receipt of goods and services. Budgetary General Fund appropriations, which have not been disbursed, continued or encumbered at fiscal year end, lapse. Such lapsed appropriations are referred to as reversions in the State's financial reports.

The State restricts commitments for budgetary General Fund expenditures by State agencies. Commitments to incur expenditures in excess of an appropriation (to be funded from unused funds appropriated to other agencies) must be approved by the Director of the Office of Management and Budget and the Controller General.

Although the majority of the State's financial transactions are processed through the accounting system, certain budgetary Special Funds have financial activity, such as investments, outside the system. For example, the Transportation Trust Fund, the Delaware State Housing Authority, the deferred compensation programs and Delaware State University all maintain certain financial activity outside the system. This activity is governed in adherence to legislative regulations as well as guidelines established by their respective boards. In addition, these entities are audited annually and produce published financial reports.

The Auditor of Accounts is required to make audits of all agencies collecting State revenue or expending State funds in excess of $500,000 each year, and, to the extent possible, to make annual audits of the financial transactions of all other State agencies. The Auditor of Accounts also reviews certain records of the Secretary of Finance and State Treasurer on a quarterly basis to reconcile the State's bank accounts to such records.

**Tax Collection Procedures**

Most of the State's taxes are collected under a self-assessing system. Taxpayers prepare the tax forms and pay the amounts they determine are due. When the State determines that a payment is less than the amount due, assessments may be made which can include applicable penalties and interest as allowed by law.

The State has continually instituted procedures to identify non-filers and increase compliance with its tax statutes. The procedures include comparing federal income tax records with State income tax records, comparing State records for various years, and cross-referencing the license tax files to licensee lists from the State's various regulatory boards.

Through the Attorney General's Office, the State employs legal procedures to effect payment of past due balances. These procedures include filing actions in the Justice of the Peace, Common Pleas and Superior Courts on bad checks received. Procedures have been instituted for the garnishment of wages and bank accounts and the sale of personal property through the County Sheriffs.

By statute, the State's accounts receivable may be removed from current active accounts only if the account is more than six years old and is determined to be uncollectible or if the potential recovery or administrative costs of collection would not warrant further collection efforts. Recently enacted legislation allows the Division of Revenue to write off the accounts of those who are deceased or bankrupt.

Recently enacted legislation requires the Secretary of Finance to prepare, maintain and publish on the Division of Revenue's Internet Website two separate lists of the top 100 business and personal taxpayers owing outstanding tax liabilities in excess of $1,000 in which a judgment has been filed and who are not currently in bankruptcy or have not entered into and complied with the terms of an installment plan.

**Risk Management**

The State is exposed to various risks and losses related to employee health and accident, worker's compensation, environmental and a portion of property and casualty claims. It is the policy of the State to self insure its exposures when cost effective and commercially insure on the exposures that are specialized.

**Cash Management**

Investment of State funds is the responsibility of the Cash Management Policy Board (the "Board"). Created by State law, the Board establishes policies for the investment of all money belonging to the State or put on deposit with the State by its political subdivisions, except money in any State pension fund and money held for individuals under the State deferred compensation program. The Board is comprised of nine members, including the Secretary of Finance, the Secretary of State, the State Treasurer, the Controller General (all serving ex officio), and five members from the private sector appointed by the Governor and confirmed by the State Senate. The current members of the Board are:

| | |
|---|---|
| John V. Flynn, Jr. (Chairman) | Managing Director, Healthcare Resource Solutions |
| Thomas J. Cook | Secretary of Finance |
| Jeffrey W. Bullock | Secretary of State |
| Warren C. Engle | Senior Vice President, PNC Bank |
| Margaret A. Iorii | Asst. Vice President, Merrill Lynch |
| Russell T. Larson | Controller General |

| | |
|---|---|
| David F. Marvin | Partner, Marvin & Palmer Associates, Inc. |
| Chipman Flowers, Jr. | State Treasurer |
| Harold Slatcher | President & CEO, County Bank |

The investment guidelines, adopted by the Board in January 1982 and most recently revised on May 4, 2010, provide, among other things, that no more than 5% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government or agencies thereof.

The State has instituted a number of measures to augment its dividend and interest earnings. Among these are the implementation of a commercial bank lockbox for collection of corporate franchise taxes, bank franchise taxes and insurance premium taxes. In addition, the State is also receiving tax payments electronically for the following taxes on a voluntary basis: employer withholding taxes, corporate franchise taxes and bank franchise taxes. The State's motor fuel/special fuels tax is collected electronically on a mandatory basis.

## BUDGETARY GENERAL FUND SUMMARIES

**Receipts by Category**

All revenue derived by the State, unless otherwise provided by law, is credited to the budgetary General Fund. The principal receipts not credited to the budgetary General Fund are unemployment insurance taxes, transportation-related taxes for the Transportation Trust Fund, certain taxes on insurance companies and property taxes levied by local school districts. Such taxes are deposited in budgetary Special Funds of the State. The State does not levy *ad valorem* taxes on real or personal property and does not impose a general sales or use tax.

The taxes summarized below produce most of the budgetary General Fund revenue.

**Personal Income Tax:** Effective January 1, 2012, Delaware's rates on taxable income range from zero on the first $2,000 of net taxable income, to 6.75% on taxable income in excess of $60,000. Taxable income consists of federal adjusted gross income, with certain modifications, less itemized deductions (or a standard deduction in lieu thereof). After the application of the rates to taxable income, a $110 non-refundable personal tax credit is subtracted for each taxpayer and dependent claimed, providing a direct dollar-for-dollar reduction in final tax liability.

Since 1992, non-resident taxes have been computed as if the taxpayer were a State resident, multiplied by the ratio of Delaware income to total income. Tax returns and payments are due April 30.

Employers maintaining an office or transacting business within the State and making payment of any wages or other remuneration subject to withholding under the United States Internal Revenue Code are required to withhold State income tax on such wages or remuneration at prescribed rates. Filing frequency is determined based on the amount of an employer's withholdings between July 1 and June 30, immediately preceding the calendar year: under $3,600 file quarterly; from $3,600 to $20,000 file monthly; and over $20,000 file up to eight times per month.

Under current law, the top marginal tax rate will fall to 5.95% effective for tax years starting on or after January 1, 2014.

**Corporation Franchise Tax:** An annual franchise tax is levied on business corporations organized under State laws, excepting banks and building and loan associations. The tax levy is based on either the corporation's total number of authorized shares of capital stock or on its gross assets. The basis yielding the lesser tax revenue is applied. Effective January 1, 2009, the maximum tax was increased. Applying the authorized share basis, the tax is levied according to the following rate schedule:

- 5,000 shares or less (minimum tax): $75.00
- 5,001 — 10,000 shares: $150.00
- $75.00 for each additional 10,000 shares or portion thereof
- Maximum annual tax is $180,000.00

Applying the gross assets basis, the tax is levied at a rate of $350 for each $1.0 million or fractional part thereof of the corporation's gross assets per authorized share. The maximum annual franchise tax is $180,000.00 and the minimum tax is $75.00. Tax payments for any corporation whose annual franchise taxes exceed $5,000.00 are required to be made quarterly. Other companies pay once each year, on March 1.

The most recent tax increase is scheduled to sunset after four years, at which time the maximum tax will drop to $165,000.

**Corporation Income Tax:** This tax is levied at the rate of 8.7% on net taxable income of both foreign and domestic corporations derived from sources within the State. Investment and holding companies, insurance companies and domestic international sales corporations, among others, are exempt. Fifty percent of the estimated tax for the taxpayer's current tax year and the balance due from the prior year is payable on the first day of the fourth month of the taxpayer's tax year, 20% of such estimated tax is payable on the 15th day of the sixth month, 20% on the 15th day of the ninth month and 10% on the 15th day of the twelfth month. Corporations with taxable income of $200,000 or more in any of the last three years must pay 80% of their current year's estimated tax on a current basis.

**Business and Occupational Gross Receipts Tax:** The State imposes license requirements and related taxes on most occupations and businesses. License fees and taxes consist of a basic annual fee of $75 (in some cases an additional $25 per establishment is levied) plus a tax on gross receipts. Effective for tax periods ending after December 31, 2011, tax rates include 0.6537% for contractors (with a monthly deduction from gross receipts of $100,000); 0.4023% for wholesalers (with a monthly deduction of $100,000); 0.1886% for manufacturers (with a monthly deduction of $1,250,000); 0.2012% for food processors (with a monthly deduction of $100,000); 0.1006% for commercial feed dealers and farm machinery retailers (with a monthly deduction of $80,000); 0.7776% for general retailers (with a monthly deduction of $100,000); 0.6537% for restaurants (with a monthly deduction of $100,000); and 0.4023% of aggregate gross receipts on most occupational licenses (with a monthly deduction of $100,000). A use tax on leases of tangible personal property is levied on the lessee at the rate of 2.0114% of lease rentals and on the lessor at the rate of 0.3017% of rental payments received. Lessors are allowed a quarterly deduction of $300,000. Automobile manufacturers pay a 0.1414% tax (with a monthly deduction of $1,250,000).

**Public Utility Tax:** Gross receipts from the sale of telephone, telegraph, gas, electricity, and cable television services are subject to tax. Receipts from services sold to residential users are excluded, except for receipts from residential cable television services. Generally, public utilities are subject to a tax rate of 4.25%. Several exemptions/reductions apply. Receipts from sales of electricity to manufacturers, and agribusiness/food processors are taxed at 2.00%. Certain electrochemical processors and receipts from sales of electricity and gas to automobile manufacturers are exempt from the tax. Cable television and direct-to-home satellite services are taxed at 2.125%.

**Cigarette Tax:** Effective August 1, 2009, the cigarette tax was increased from $1.15 to $1.60 per 20 cigarette pack. Moist snuff is taxed at a rate of 54 cents per ounce. Other tobacco products are taxed at 15% of the wholesale price.

**Inheritance and Estate Tax:** Effective January 1, 1999, the inheritance tax was eliminated. Since the inheritance tax was eliminated, the State has continued to levy its estate tax. Delaware's estate tax, sometimes referred to as a "pick up" tax, applies only to those estates required to pay the federal estate tax. Changes in federal law effectively phased-out Delaware's estate tax in 2005. Effective July 1, 2009, however, the State chose to "decouple" from federal law effectively reinstating the tax essentially as it existed in 2001.

Under current law, the Delaware estate tax is scheduled to sunset on July 1, 2014.

**Realty Transfer Tax:** Generally, the State levies a realty transfer tax at a rate of 1.5% of the consideration paid for any real property transferred. (Local governments are permitted to levy an additional 1.5%.) A 1% tax is levied on the value of construction in excess of $10,000 where the underlying property was acquired by the owner less than 12 months prior to the commencement of construction.

**Alcoholic Beverage Tax:** The State imposes an excise tax on the distribution of alcoholic beverages. Beer is taxed at the rate of $4.85 per barrel; wine at 97 cents per gallon; liquor containing 25% or less alcohol by volume at $2.50 per gallon; and liquor containing more than 25% at $3.75 per gallon.

**Insurance Tax:** The State levies a tax of 1.75%, plus an additional 0.25% for the benefit of fire and police, on gross premiums, less dividends and returned premiums on cancelled policies, for most types of insurance. An annual privilege tax is levied on domestic insurers based upon annual gross receipts and subject to credits for payroll compensation for employee services performed in the State.

**Bank Franchise Tax:** The State levies a tax on banks at 8.7% on the first $20 million of taxable income, 6.7% on such income between $20 and $25 million, 4.7% on such income between $25 million and $30 million, 2.7% on such income between $30 million and $650 million, and 1.7% on taxable income in excess of $650 million.

Effective for tax years beginning after December 31, 2006, banks have the option of using an "Alternative Franchise Tax". The Alternative Franchise Tax has two parts:

1. A traditional income tax employing three-factor apportionment with a double-weighted receipts factor. The tax's regressive rates range from 7.0% on taxable income not in excess of $50 million to 0.5% on taxable income in excess of $1.3 billion.

2. A "Location Benefits Tax" based on assets. The location benefit tax liability shall be $1.6 million, plus 0.012% of the value of the assets not in excess of $5,000,000,000; 0.008% of the value of the assets in excess of $5,000,000,000 but not in excess of $20,000,000,000; 0.004% of the value of the assets in excess of $20,000,000,000 but not in excess of $90,000,000,000.

**Additional Sources of Revenue**

**Lottery**

Delaware's lottery is comprised of two separate entities. The traditional lottery consists of daily drawings, lotto, instant tickets, and the multi-state Powerball. Racino operations consist of a video lottery, a sports lottery and table games. The video lottery is a state-operated network of linked video lottery machines restricted to three locations authorized by state law. Delaware shares the regional video lottery market with suburban Philadelphia and Maryland, which is expected to enter the video lottery market in stages beginning in the autumn of 2010.

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

In January 2010, Delaware passed legislation permitting its racinos to operate table games, such as blackjack, craps and roulette. Table games, which are expected to enhance the State's position in an increasingly competitive gaming market, increase employment and add revenue to the State's coffers, were operational early in fiscal 2011. For fiscal 201 I, table games are expected to generate $40.5 million in new revenue.

DEFAC monitors these developments and updates the State's revenue forecasts as they have unfolded. At least 30.0% of the net revenue generated from the traditional lottery is contributed to the budgetary General Fund. The State retains 43.5% of video lottery profits, 29.4% of the net proceeds from table games and 50% of the proceeds from sports lottery.

**Abandoned Property**

Abandoned property represents any debt or obligation, including securities, which have gone unclaimed or undelivered for three or more years. Such unclaimed property is reported to the state of the lost owner's last known address. If the owner's address is unknown or is in a foreign country, the unclaimed property is reported to the state of incorporation of the holder of the unclaimed property. In addition, for those lost owners with a last known address that is in a state which does not have an applicable statute for the type of property being reported, the unclaimed property is reported to the state of incorporation of the holder.

**Budgetary General Fund Disbursements by Category of Expense**

The following table summarizes the budgetary General Fund disbursements of the State for fiscal years ended June 30, 2006 through 2010. See "STATE FINANCIAL OPERATIONS — "Expenditure Summary — Fiscal 2006—Fiscal 2010" for a detailed explanation of the expenditure figures.

**Budgetary General Fund Disbursements**
(in millions)

| | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 |
|---|---|---|---|---|---|
| **Salaries** | $1,108.3 | $1,167.2 | $1,222.9 | $1,225.5 | $1,154.7 |
| Debt Service | 132.5 | 131.2 | 151.1 | 156.4 | 174.3 |
| Contractual Services | 252.2 | 289.5 | 296.7 | 286.8 | 255.5 |
| Fringe Benefits, except Pensions | 298.4 | 323.5 | 332.7 | 332.9 | 331.0 |
| Pensions | 180.7 | 201.5 | 218.6 | 211.1 | 196.7 |
| Welfare and Assistance Grants | 473.1 | 535.7 | 591.4 | 504.7 | 509.8 |
| Other Grants | 403.1 | 365.1 | 259.1 | 265.8 | 195.4 |
| Other | 332.2 | 376.2 | 349.1 | 312.3 | 259.1 |
| Total Disbursements | $3,180.5 | $3,389.9 | $3,421.6 | $3,295.5 | $3,076.5 |

**Budgetary General Fund Disbursements by Purpose**

The State assumes substantial financial responsibility for a number of programs often funded by local units of government in other states, including public and higher education, social service programs and the correctional system. In addition, the State builds and maintains all roads and highways within the State except certain local streets within a municipality's corporate boundaries and certain private streets. See "INDEBTEDNESS OF AUTHORITIES, UNIVERSITY OF DELAWARE AND POLITICAL SUBDIVISIONS - Authorities - Delaware Transportation Authority" for additional information. The major State programs are described in more detail below.

**Public Education**

Delaware is one of only four states in the country which has not undergone a constitutional challenge to its public education funding. The State finances its public school operations from a combination of State, federal and local funds. In fiscal 2009, the State provided 64%, the federal government 5% and localities 31% of the cost for current operations and debt service. For fiscal 2008, the U.S. Department of Education, National Center for Educational Statistics, Institute for Education Sciences reported that Delaware was exceeded by eight other states and the District of Columbia in terms of the percentage of public school revenues financed by the State. Public education base salary scales are set by State law, but the base salary may be supplemented by local funds. The local supplements vary in each school district in the State, depending on each district's contractual obligations with its employees and the district's ability and willingness to tax its constituents. For the 2010-2011 school year, the average State-local funded classroom teacher's salary was $57,437, of which $40,160 was paid from State funds and the balance paid from federal or local funds. The State share of public education costs is allocated to the school districts, subject to a number of formulae based primarily on enrollment. The State funds between 60% and 80% of school construction costs, based on an index of an individual district's ability to generate local share funding. The State also funds fringe benefits for school personnel in approximate proportion to the budgetary General Fund contribution to salaries, with the exception of health insurance which is 100% State funded for the basic plan. School districts reimburse the State for fringe benefit costs for personnel hired and paid under federally-funded programs and for the proportion of salary paid from local funds.

Budgetary General Fund expenditures for public education in fiscal 2010 totaled $1,121.1 million. Appropriations of $1,044.2 million have been made for fiscal 2011.

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

**Public School Enrollment(1)**

| | Enrollment | Change |
|---|---|---|
| 2001 | 114,693 | 0.9% |
| 2002 | 115,566 | 0.8 |
| 2003 | 117,055 | 1.3 |
| 2004 | 118,413 | 1.2 |
| 2005 | 120,482 | 1.7 |
| 2006 | 121,856 | 1.7 |
| 2007 | 123,615 | 1.4 |
| 2008 | 124,903 | 1.0 |
| 2009 | 126,271 | 1.1 |
| 2010 | 127,944 | 1.3 |

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally-funded.

**Higher Education**

The State's higher education system consists of eight institutions, which enrolled 55,174 students in the 2009-2010 academic school year based upon Fall 2009 student headcount (43,501 on a full time equivalent ("FTE") basis). The three State-supported institutions are Delaware Technical and Community College which enrolled 15,681 students (10,099 FTE); Delaware State University, a land grant college located in Dover which enrolled approximately 3,609 students (3,309 FTE); and the University of Delaware, a land grant college located in Newark, which enrolled 21,138 students (19,506 FTE). The five privately supported institutions of higher education in the State enrolled an additional 14,746 students in 2009-2010 (10,587 FTE).

Budgetary General Fund expenditures for higher education in fiscal 2010 were $224.6 million. The State provides approximately 15% of the operating budget of the University of Delaware, 41% of the budget of Delaware Technical and Community College, and 38% of the budget of Delaware State

University. Appropriations of $212.5 million have been made for fiscal 2011, including $115.7 million for the University of Delaware, $64.2 million for Delaware Technical and Community College and $32.2 million for Delaware State University.

**Social Services**

The principal social service programs administered by the State are: (I) Temporary Assistance for Needy Families ("TANF"); (2) General Assistance to low-income single individuals and children living with non-relatives who do not qualify for Supplemental Security Income ("SSI") or TANF payments ("General Assistance Program"); (3) service programs for qualified individuals including child care, employment, training services, work transportation and food stamps through the federal Supplemental Nutritional Assistance Program ("SNAP"); and (4) direct medical assistance to qualifying individuals ("Medicaid").

Since January 1974, the SSI Program has been administered and funded by the federal government. Beginning with fiscal 1975, the State elected to supplement federal SSI payments for individuals who received the State equivalent of SSI payments prior to January 1974.

Delaware's Medicaid program traditionally has been funded at the minimum Federal financial participation ("FFP") rate of 50%. However, during the period from April 1, 2003 through June 30, 2004, the FFP was increased to 52.95% pursuant to Title IV of the Jobs and Growth Tax Relief Reconciliation Act of 2003. From October 1, 2004 through September 30, 2005, the FFP was 50.38%. During the period from

October 1, 2005 through September 30, 2006, the FFP was 50.09%. Beginning with the period of October 1, 2006 through September 30, 2008, the FFP was 50.0%. With the passage of the America Recovery and Reinvestment Act of 2009 (ARRA), effective October 1, 2008 through June 30, 2011, Delaware was entitled to an increased FFP. This rate was 60.19% from October 1, 2008 through June 30, 2009, increasing to 61.59% from July 1, 2009 through September 30, 2009. It further increased to 61.78% effective October 1, 2009 and remains at that rate currently.

Delaware's TANF program is funded by a federal capped block grant and State budgetary General Funds. The State is required under federal law to maintain a prescribed level of historic State expenditures for benefits and services to individuals eligible for TANF. The State submits a quarterly budget of total quarterly anticipated expenditures for the Medicaid program to the U.S. Department of Health and Human Services. Upon approval of the budget, the U.S. Department of Health and Human Services issues a letter of credit against which the State may draw to meet its quarterly obligations. Adjustments based on actual expenditures are made in the ensuing quarter. General Assistance ("GA") Program grants are entirely funded by the State. This program has experienced consistent growth since 2003, and benefits were reduced from an average of $123 to $95 in July 2010.

The portion of the expenditures for the foregoing programs paid by the federal government is accounted for by the State through the non-appropriated budgetary Special Funds. The portion paid by the State is accounted for through the budgetary General Fund.

Since 2008, welfare caseloads in Delaware have increased by approximately 26%. The average wage of those who have moved from welfare to full time work is $8.99 per hour. The State provides health care, childcare assistance and assistance with transportation to work for participants in the State's welfare reform program and provides transitional health care and subsidized childcare to income eligible individuals who have left the welfare rolls. An average of 16,766 people per month received cash assistance (from the GA Program and/or TANF) in fiscal 2010.

Since fiscal 2008, welfare caseloads and income maintenance expenditures have increased, driven by a dramatic increase in applications for SNAP and medical assistance. The following table indicates the trends of selected State social services expenditures for fiscal 2004 through fiscal 2010.

## Social Services Expenditures

(dollars in millions)

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 |
|---|---|---|---|---|---|---|---|
| **TANF** | | | | | | | |
| Number of Recipients/month | 14,237 | 14,062 | 13,876 | 11,382 | 10,307 | 11,312 | 13,027 |
| Total Expenditures/year | $19.1 | $19.0 | $18.7 | $16.2 | $15.3 | $16.7 | $21.8 |
| State Share | $2.9 | $3.4 | $3.5 | $2.7 | $11.1 | $16.5 | $16.3 |
| **GENERAL ASSISTANCE** | | | | | | | |
| Number of Recipients/month | 2,335 | 2,481 | 2,620 | 2,818 | 3,008 | 3,352 | 3,739 |
| Total Expenditures/year | $3.3 | $3.5 | $3.8 | $3.9 | $4.2 | $4.7 | $5.2 |
| State Share | $3.3 | $3.5 | $3.8 | $3.9 | $4.2 | $4.7 | $5.2 |
| **SSI** | | | | | | | |
| Number of State Subsidized Recipients/month | 745 | 805 | 838 | 804 | 820 | 845 | 830 |
| State Share | $1.1 | $1.2 | $1.1 | $1.1 | $1.1 | $1.2 | $1.1 |
| **FOSTER CARE (DSCYF)** | | | | | | | |
| Number of Children/month | 627 | 651 | 748 | 843 | 857 | 740 | 640 |
| Total Expenditures/year | $9.8 | $11.8 | $15.1 | $19.2 | $20.4 | $18.2 | $16.5 |
| State Share | $8.4 | $10.2 | $13.1 | $16.8 | $17.6 | $15.9 | $13.5 |
| **DAY CARE** | | | | | | | |
| Number of Children/month | 13,813 | 13,839 | 14,266 | 15,039 | 14,009 | 13,496 | 13,668 |
| Total Expenditures/year | $40.0 | $37.5 | $46.6 | $53.6 | $49.0 | $44.6 | $38.5 |
| State Share | $23.7 | $24.9 | $28.7 | $38.0 | $26.0 | $10.5 | $10.9 |
| **MEDICAID** | | | | | | | |
| Number of Eligibles/month | 130,411 | 138,884 | 142,548 | 143,386 | 148,827 | 160,018 | 173,771 |
| Total Expenditures/year | $730.3 | $826.4 | $861.6 | $990.0 | $1,052.0 | $1,201.6 | $1,315.5 |
| State Share | $345.9 | $397.2 | $428.0 | $495.0 | $519.7 | $499.4 | $505.3 |
| **COMMUNITY HEALTH** | | | | | | | |
| State Expenditures/year | $23.8 | $25.1 | $26.5 | $35.6 | $39.8 | $41.0 | $33.5 |

**Children's Services**

The Department of Services for Children, Youth and Their Families provides integrated service delivery for children and their families in its efforts to promote family stability through a child-centered, family-focused continuum of care. The Department served 22,539 clients in FY 2010, some of these clients were shared by each of the three divisions. The Family Services division spent $46.3 million in fiscal 2008, $43.9 million in fiscal 2009, $25.5 million in fiscal 2010 and has budgeted $42.4 million in fiscal 2011. The Division of Youth Rehabilitative Services (YRS) handles delinquent youth in both pre- and post-adjudication through an array of alternative placements and State-owned secure facilities. The YRS division spent $44.0 million in fiscal 2008, $40.4 million in fiscal 2009, $36.6 million in fiscal 2010 and has budgeted $39.3 million for fiscal 2011. The Division of Child Mental Health (CMH) Services provides programs for the mentally ill and the emotionally disturbed. The CMH spent $27.4 million in fiscal 2008, $26.2 million in fiscal 2009, $40.5 million in fiscal 2010 and has budgeted $27.7 million for fiscal 2010.

**Corrections**

The Department of Corrections ("DOC") is the only government operated correction agency in the State. Delaware runs what is called a unified corrections system. Delaware has no regional, county or municipal correction or jail system and no separate probation system. Offenders immediately become the responsibility of the State, including: pre-trial and sentencing, misdemeanor and felony, jail and prison and all community based sanctions. Sentencing in the State has evolved with the passage of Sentencing Accountability ("SENTAC") legislation whereby all offenders are sentenced to one of five levels ranging from Level 1 (administrative supervision) to Level V (incarceration). This structure allows the State flexibility to match offenders with the most appropriate sentence. Total budgetary General Fund expenditures for DOC in fiscal 2010 were $238.0 million. The budget for fiscal 2011 is $243.5 million. As of June 30, 2010, the incarcerated population in the custody of the Department is approximately 6,580, of which about 3,897 are prisoners. The jail population of approximately 2,683 is divided between offenders sentenced to less than 1 year of incarceration (1,291) and offenders held pending trial (1,392). Over 16,500 individuals are under community supervision.

## BUDGETARY SPECIAL FUNDS SUMMARIES

Each budgetary Special Fund is created by statute or administrative action for a specific purpose. The appropriate Fund is credited with the specific revenue or receipts allocated to such Fund. Disbursements from budgetary Special Funds require specific appropriation by the General Assembly.

In general, money in budgetary Special Funds is not available for disbursement or encumbrance until funds are deposited therein with the result that disbursements plus outstanding encumbrances cannot exceed the available funds (except for federal funds and the Transportation Trust Fund). In the case of bond funds, total disbursements plus encumbrances cannot exceed authorizations. At fiscal year end, the available fund balance plus outstanding encumbrances are carried over into the succeeding fiscal year.

**Local School Property Taxes and Assessed Valuation**

These taxes are levied by local school districts upon the assessed value of real estate in the district, as determined for county taxation purposes, for the local share of school operating costs and debt service on capital improvements. All tax receipts of a district are credited to the appropriate budgetary Special Fund and operating expenses are disbursed from such Fund upon the presentation of warrants or drafts to the State Treasurer by the school board of the district, The State's share of operating and debt service costs are appropriated and disbursed from the budgetary General Fund.

The following table outlines the assessed and estimated full valuation of all taxable real property in the State as of July 1, 2010.

**Real Property Valuations**
(in millions)

| County | Assessed Valuation[1] | Estimated Full Valuation |
|---|---|---|
| New Castle | $18,404.6[2] | $72,792.9 |
| Kent | 3,486.6[3] | 22,174.3 |
| Sussex | 2,825.9[4] | 40,308.7 |
| Total | $24,717.1 | $135.275.9 |

(1) Net of all legal exemptions.
(2) Based on 100% of 1983 appraised value, as of the date of the most recent assessment which occurred in 1985
(3) Based on 60% of appraised value, as of the date of the most recent assessment which occurred in 1987
(4) Based on 50% of appraised value, as of the most recent assessment which occurred in 1974.

Source: Delaware Department of Education.

**Unemployment Compensation**

Money deposited in the Unemployment Compensation Fund consists of employers' contributions and has at certain times in the past included advances from the federal government necessary to meet the excess of unemployment compensation benefits paid over the employers' contributions. As of June 1, 2011, the Unemployment Compensation Fund reflected a cumulative advance of $62,523,367.88.

**Federal Grants, Benefits and Reimbursements**

All grants and reimbursements of money received from the federal government by the State are credited to budgetary Special Funds. The money is disbursed to the appropriate agency to be used for the purpose stated in the grant application without any further authority from the General Assembly. The Delaware State Clearinghouse Committee is the committee representing the legislative and executive branches of government. It is charged with reviewing all State agency applications for federal funds and no agency may expend federal funds without approval of this committee.

The following chart indicates the distribution of federal funds expended by the State by Department in the fiscal years indicated below.

**Ratio of Federal Funds Expended by Department**

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 |
|---|---|---|---|---|---|---|
| Health & Social Services | 57.5% | 58.6% | 61.6% | 59.6% | 61.0% | 57.2% |
| Transportation | 10.4% | 10.2% | 9.0% | 12.3% | 13.9% | 13.0% |
| Public Education | 12.4% | 12.4% | 12.0% | 11.1% | 10.3% | 13.1% |
| Housing Authority | 3.7% | 3.6% | 4.1% | 3.9% | 3.2% | 3.9% |
| Labor | 3.5% | 3.2% | 3.1% | 2.8% | 2.6% | 2.3% |
| Higher Education | 2.7% | 2.5% | 2.5% | 2.6% | 2.5% | 3.1% |
| Natural Resources | 2.8% | 2.6% | 2.9% | 2.6% | 2.3% | 2.3% |
| Other | 7.0% | 6.9% | 4.8% | 5.1% | 4.2% | 5.1% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Pension Fund Receipts**

State pension contributions are appropriated by the General Assembly in the annual budget to cover the liability on budgetary General Fund salaries and are disbursed each month from the budgetary General Fund. Each monthly disbursement is recorded as a receipt of the appropriate budgetary Special Fund and is disbursed from such budgetary Special Fund to meet pension benefits and operating costs. The balance is disbursed from the budgetary Special Fund and invested as part of the State pension plan. See "STATE PENSION PLAN" for additional information. Employee pension contributions are also recorded as budgetary Special Fund receipts and are disbursed together with the State's share of pension costs. Pension costs paid by the federal government for employees paid under federal programs are also recorded as budgetary Special Fund receipts and disbursements.

**Social Security Fund Receipts**

All Social Security contributions by State departments and agencies and political subdivisions are recorded as a receipt to the Social Security Fund and are remitted on a semi-monthly basis. Contributions are submitted to the U.S. Department of the Treasury semi-monthly, at which time a disbursement is recorded.

**Bond and Note Sales**

All proceeds received from the sale of bonds or bond anticipation notes are recorded as a receipt in a special account designated as the State Treasurer's Bond Account. The withdrawal of proceeds is recorded as a budgetary Special Fund disbursement. The principal and interest on the State's general obligation bonds are paid as a budgetary General Fund disbursement.

## DEFERRED COMPENSATION PROGRAM

State employees may elect to participate in a deferred compensation plan. The plan is an eligible plan under Section 457(b) of the Internal Revenue Code (the "Code").

In accordance with federal law, the annual limit on a participant's pre-tax contributions remains at $16,500 in 2011. An additional, catch up contribution is available for those ages 50 and older who may contribute an additional $5,500 in 2011.

## STATE PENSION PLAN

The State of Delaware Employees' Pension Plan (the "Plan"), established by the General Assembly, covers approximately 35,217 active employees and approximately 21,676 retired employees. All State employees (except State police and State judges) and all local school district employees who qualify as full-time and regular part-time employees participate in the Plan. The other plans funded by the state include a now closed State Police Pension Plan (for officers hired prior to July 1, 1980) which covers 3 active officers and 547 retirees, the new State Police Pension Plan which covers the 651 officers hired after July 1, 1980 and 113 retirees, and the State Judiciary Pension Plan which covers 55 active employees and 42 retirees. The Plan and the other plans collectively are known as the Delaware Public Employees' Retirement System (the "Fund").

The Fund is managed by a Board of Pension Trustees (the "Board") composed of five members from the private sector appointed by the Governor, and the Secretary of Finance and the Director of the Office of Management & Budget serving as ex-officio members. The current members of the Board are:

| | |
|---|---|
| Philip S. Reese (Chairman)................................. | Former Vice President and Treasurer, Connectiv |
| Thomas J. Cook .................................................. | Secretary of Finance |
| Helen R. Foster, J.D. ........................................... | President, CTW Consulting Associates |
| Suzanne B. Grant ................................................ | Former Vice President, Salomon Smith Barney, Consulting Group |

| | |
|---|---|
| Thomas S. Shaw.................................................. | Former Executive Vice President and Chief Operating Officer, PHI |
| Nancy Shevock .................................................... | Former Director, Delaware Transit Corp. |
| Ann S. Visalli...................................................... | Director, Office of Management & Budget |

The custodian of the Fund's assets is Northern Trust Company, Chicago, Illinois. The fund's assets are managed by professional investment management firms. The total return on the fund in fiscal 2010 was 14.1% compared to 14.4% for the Standard & Poor's 500.

The Plan provides retirement, disability and survivor benefits. In general, recipients are entitled to receive a service pension at various times during their years of credited service, i.e.: (1) age 62 with 5 years of credited service; (2) age 60 with 15 years of credited service; (3) a reduced service pension at age 55 with 15 years of credited service; (4) a reduced service pension at any age with 25 years of credited service; or (5) at any age with 30 years of credited service. An employee is "fully vested" in benefits after 5 years of service. Employees hired after January 1, 2012 will become vested after 10 years of service and will be eligible for a benefit at age 65.

Benefit payments are computed using the average monthly compensation for the 36 months of highest monthly compensation. The average is then multiplied by 1.85% for each year of credited service after January 1, 1997 to determine the actual monthly benefit. Retirees with credited service before December 31, 1996 get a multiplier of 2.00 for service prior to January 1, 1997.

The Plan is funded on an actuarially sound basis, as determined by the Board, on the basis of actuarial analyses undertaken by Cheiron, Inc. on an annual basis. The most recent valuation (as of June 30, 2010) was completed in September 2010. As of January 1, 1998, all employees contribute 3% of annual compensation above $6,000. Employees hired after January 1, 2012 will contribute 5% of annual compensation above $6,000. The State makes annual contributions to the Plan in amounts sufficient to meet both the normal cost of the Plan and to amortize the accrued unfunded liability of the Plan. The normal cost of the Plan is the amount of contributions required each year, with respect to each employee, to accumulate the reserves needed to meet the cost of earned benefits over the employee's working lifetime. The unfunded accrued liability of the Plan is the amount of contributions required to meet unpaid past normal costs.

Prior to July, 1970, the State appropriated annually the amounts required to meet pension benefits payable in the year of appropriation. During the five year period from July 1, 1970 to July 1, 1975, the State increased its annual contributions to the Plan and replaced that financing practice with a statutory policy of fully funding the Plan on an actuarial reserve basis. Originally, the State's annual contribution to the Plan had been equal to the sum of the normal costs of each year and the annual payment required to amortize the unfunded accrued liability over 40 years from July 1, 1975. Following this policy, the Fund reached fully funded levels earlier than the projected 40 years, after which time the State's annual contribution to the Plan was changed to equal the sum of the normal cost of each year and the annual payment required to amortize the unfunded accrued liability over a rolling 20 year period. Each year the Board certifies the required State contribution rate as a percentage of covered payroll, based on the results of the actuarial valuations of the Plan.

The unfunded accrued liability on an actuarial basis for the last five fiscal years is outlined in the table below. The Plan has an unfunded accrued liability of $287.4 million as of June 20, 2010.

**Unfunded Accrued Liability**
(in millions)

| | |
|---|---|
| June 30, 2005 .................................. | ($87.3) |
| June 30, 2006 .................................. | ($97.7) |
| June 30, 2007 .................................. | ($229.9) |
| June 30, 2008 .................................. | ($202.1) |
| June 30, 2009 .................................. | $83.0 |
| June 30, 2010 .................................. | $287.4 |

The new State Police Pension Plan (for all persons hired after June 30, 1980) and the State Judiciary Pension Plan also are funded on an actuarial reserve basis as determined by the Board, on the basis of annual actuarial analyses undertaken by Cheiron, Inc. The new State Police Pension Plan has an unfunded accrued liability of $14.9 million as of June 30, 2010. The State Judiciary Pension Plan showed an unfunded accrued liability on June 30, 2010 of $8.5 million. Benefits paid through the original State Police Pension Plan (for officers hired before July 1, 1980) are funded from current appropriations. As of June 30, 2010, this plan had an unfunded accrued liability of $297.0 million.

Payment of each annual contribution is subject to appropriation by the General Assembly. In each year since fiscal 1971, the General Assembly has appropriated the contribution amounts recommended by the Board. The State contribution to the State Employees' Plan in fiscal 2010 was $101.4 million.

The following table sets forth certain information concerning the Plan for the fiscal years set forth below.

**State Employees' Pension Plan**
(in millions)

| | **Fiscal 2006** | **Fiscal 2007** | **Fiscal 2008** | **Fiscal 2009** | **Fiscal 2010** |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Employee Contributions | $41.1 | $ 42.8 | $ 45.7 | $ 45.9 | $ 44.9 |
| State Contributions[1] (budgetary General Fund and budgetary Special Funds) | 129.3 | 142.1 | 148.5 | 135.4 | 127.6 |
| Investment Income | 666.7 | 942.7 | 110.5 | (1,048.3) | (756.6) |
| Total Income | $837.1 | $127.6 | $83.7 | ($867.0) | $929.1 |
| **Disbursements** | | | | | |
| Pension Benefits Paid | $300.3 | $327.8 | $348.1 | $369.2 | $399.2 |
| Refunds | 2.9 | 3.2 | 3.0 | 3.1 | 3.1 |
| Other Disbursements | 9.3 | 9.1 | 10.3 | 11.1 | 10.2 |
| Total Disbursements | $312.5 | $340.1 | $361.4 | $383.4 | $412.5 |
| Excess of Income over Disbursements | $524.6 | $787.5 | ($277.7) | ($1,250.4) | ($516.6) |
| Total Plan Assets | $6,133.1 | $6,920.6 | $6,642.9 | $5,392.5 | $5,909.1 |

[1] Includes contributions to a Post-Retirement Increase Fund.

The growth in investment income in certain years as a percentage of total plan income has permitted changes in the actuarial assumptions and the reduction of employee contributions and has provided the ability to fund increases to pensioners. State pensioners have received 15 pension increases averaging a total of 45.53% since July 1984, based on date of retirement.

**Other Post Employment Benefits**

The State provides post-employment health care to its employees and, in fiscal 2008, began accounting for these benefits according to Government Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("GASB 45"). The State's actuarially accrued liability, based on a study conducted by Cheiron of McLean Virginia using actual data as of July 1, 2010, has been determined to be about $5.9 billion using a discount rate of 5.0%. The State began pre-funding the obligation in 2002 and 2003 with lump sum payments and contributions based on a percentage of payroll. In fiscal 2007, the amount contributed as a percentage of payroll was approximately $5 million and increased to approximately $10 million in fiscal 2008 and 2009. In fiscal 2010, the State contributed $10 million in abandoned property revenue in excess of $374.0 million transferring those funds in late April. Another $10 million of abandoned property revenues in excess of $424.0 has been similarly appropriated for fiscal 2011. The State has established an irrevocable trust and has accumulated $125 million in assets at December 31, 2010, which represents a funding ratio of less than 2%. The State's fiscal 2010 annual required contribution ("ARC") was $480.0 million of which 36% was met through cash contributions and paid benefits, and its fiscal 2011 ARC is estimated at $488.1 million of which 37.6% is expected to be met with cash contributions and paid benefits. The State expects to manage this obligation over time with continued contributions, savings initiatives and a review of benefits. During fiscal 2011 pension/healthcare reform legislation was passed and signed by the Governor. The legislation establishes a fixed cost share in the State's health insurance programs for active employees and retirees that will reduce the State's future obligations.

## EMPLOYEE RELATIONS

The State currently has 31,027 full-time equivalent (FTE) positions budgeted for fiscal year 2011, a decrease of 319 FTEs from fiscal 2010. This includes 13,526 FTE Fees in the public schools, 737 FTEs in institutions of higher learning (excluding employees of the University of Delaware, which is not considered part of the State's financing reporting entity) and 16,764 FTE positions in all other departments.

Since July 1966, virtually all State employees have had the right to organize for the purpose of collective bargaining. Classification of bargaining units is determined by the Public Employee Relations Board ("PERB"). Collective bargaining is conducted by the Office of Management and Budget on behalf of departments and agencies. With respect to non-merit system employees, such bargaining may include all terms and conditions of employment, including wages, hours and benefits. With respect to the merit system employees, individual bargaining units may not bargain wages, most benefits, classification plans or hiring practices. Effective with the Governor's signature on August 2, 2007, Senate Bill 36 permits merit system employees to negotiate compensation, defined as payment of salaries and cash allowances, through the collective bargaining process. Position classification, health care and other benefit programs, workers compensation, disability programs and pension programs are not negotiable. These agreements are subject to approval by the Governor and binding to the extent sufficient appropriations are made by the General Assembly. At present, approximately 8,000 of the State's merit system employees are organized and covered by collective bargaining agreements.

Employees of institutions of higher education, certified professional employees of the State public school system (teachers) and certain public school support personnel have the right to organize for the purpose of collective bargaining. Bargaining units representing such employees negotiate with their respective school districts regarding all matters relating to salaries, employee benefits and certain working conditions. Virtually all of these school employees are covered by collective bargaining agreements.

State employees in Delaware do not have the legal right to strike. Few work stoppages have occurred. Currently only two-thirds of employees eligible for union representation are covered by collective bargaining agreements. All payment contracts reached under such agreements are subject to appropriation by the General Assembly, except for the locally funded portion of school district employees' salaries and benefits.

In 1982, a State law was enacted establishing the PERB to oversee the conduct of labor negotiations between public school teachers and their boards of education. There are provisions for mediation and binding arbitration of collective bargaining disputes. Strikes, slow-downs and walkouts are prohibited; but, if they occur, school boards are required to seek injunctive relief. In 1986, legislation was enacted which extended the PERB's jurisdiction to police officers and firefighters. The PERB's jurisdiction was further expanded in 1994 to include all public employees in the State. In the same year, a State law was enacted establishing the Merit Employee Relations Board to address grievances and related issues of merit system employees.

## GOVERNANCE

The chief executive officer of the State is the Governor, who is elected for a term of four years. The State Constitution limits any Governor to two terms, whether or not consecutive. The Governor appoints all members of the State judiciary, the cabinet, and the boards and councils. The Governor reports to the General Assembly at the start of each annual session in January on the "State of the State," recommends changes in legislation, and follows this report with an annual budget message and financial accounting of the State.

In addition to the Executive Office of the Governor (which includes the Offices of Management and Budget, Economic Development, and Technology and Information), there are thirteen cabinet departments, as reflected in the table which follows. They include the following: the Department of State, which administers the Division of Corporations and the Division of Cultural and Historical Affairs; the Department of Finance, which performs financing, accounting, bond finance, revenue collection, fiscal policy functions and administers the State lottery; the Department of Health and Social Services; the Department of Services for Children, Youth and Their Families; the Department of Natural Resources and Environmental Control; the Department of Labor; the Department of Transportation, which oversees the Division of Motor Vehicles; the Department of Safety and Homeland Security, which oversees the state police; the Department of Correction; the Department of Agriculture; the Department of Education; Delaware State Housing Authority; and the Delaware National Guard. Delaware is unusual in that the State government (as opposed to county or municipal governments) funds and administers substantially all correctional, public health, welfare, and transportation services for its residents.

Other elected officers include the Lieutenant Governor who presides over the Senate and the Board of Pardons; the State Treasurer, who is one of four Issuing Officers, signs all state checks and oversees the management of the State's bank accounts; the Auditor of Accounts who audits all State agencies' financial transactions; the Insurance Commissioner; and the Attorney General who is the chief legal officer of the State. All of the elected officers serve terms of four years.

The State's General Assembly is bicameral and consists of a 2l-member Senate and a 41-member House of Representatives. The entire House stands for re-election every two years, while Senators are elected to four year staggered terms. Regular sessions of the General Assembly convene in January and adjourn by June 30th. Between regular sessions, the Governor or the presiding officers of either house may call special sessions. Proposed legislation is usually assigned to a standing committee for review. It may then receive consideration on the floor of both houses.

The judicial branch of the government includes a Supreme Court, which acts primarily as an appeals court, and the Court of Chancery, an equity court which has jurisdiction over corporate matters, trusts, estates, and other matters involving equitable jurisdiction. The Superior Court has jurisdiction over criminal and civil cases, except equity cases. The Family Court administers justice in cases involving domestic relations or dependent juveniles. The Court of Common Pleas is a court of limited jurisdiction over civil and criminal matters which the Superior Court would otherwise handle. The Justice of the Peace Courts handle criminal matters and civil cases where the amount in controversy is less than $5,000.

The following is a list of certain elected officials, cabinet positions and other appointed officials.

Statewide Elected Officials

| | |
|---|---|
| Governor | Jack A. Markell |
| Lieutenant Governor | Matthew Denn |
| Attorney General | Joseph R. Biden III |
| State Treasurer | Chipman Flowers, Jr. |
| State Auditor | R. Thomas Wagner, Jr. |
| Insurance Commissioner | Karen Weldin Stewart |

Cabinet Positions and Other Appointed Officials

| | |
|---|---|
| Agriculture | Edwin Kee |
| Correction | Carl C. Danberg |
| Delaware Economic Development Office | Alan Levin |
| Education | Lillian Lowery |
| Finance | Thomas J. Cook |
| Health and Social Services | Rita Landgraf |
| Housing | Anas Ben-Addi |
| Labor | John McMahon |
| Management and Budget | Ann Visalli |
| National Guard | Francis D. Vavala |
| Natural Resources and Environmental Control | Collin O'Mara |
| Safety and Homeland Security | Lewis Schiliro |
| Services for Children, Youth and Their Families | Vivian Rapposelli |
| State | Jeffrey W. Bullock |
| Technology and Information | James Sills III |
| Transportation | Shailen Bhatt |

## LITIGATION

The State is a defendant in various suits involving contract/construction claims, tax refunds claims, allegations of wrongful discharge and/or other employment-related claims, use of excessive force, civil rights violations, and automobile accident claims. Although the State believes it has valid defenses to these actions, the State has identified a potential aggregate exposure which could exceed $4.5 million as of June 15, 2011. This is only an estimate and may change when the State issues its official financial statements for the upcoming Fiscal Year ending June 30, 2011.

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Appendix B

## Summary of Cash Basis Financial Statements for the State of Delaware

## Fiscal Years 2006 through 2010

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

| | Fiscal Years Ended June 30 | | | | |
|---|---|---|---|---|---|
| | **2006 (1)** | **2007 (1)** | **2008 (1)** | **2009 (1)** | **2010 (1)** |
| **Receipts** | | | | | |
| Tax Revenue | | | | | |
| Personal Income | $ 1,163,277 | $ 1,186,579 | $ 1,198,756 | $ 1,105,248 | $ 1,061,486 |
| Franchise | 526,364 | 540,447 | 566,308 | 574,213 | 633,108 |
| Corporation Income | 182,729 | 177,061 | 227,791 | 162,134 | 125,575 |
| Gross Receipts | 179,264 | 157,312 | 162,117 | 164,079 | 194,594 |
| Public Utility | 39,354 | 46,156 | 48,106 | 55,857 | 56,694 |
| Cigarette | 88,526 | 88,289 | 125,338 | 125,681 | 132,278 |
| Pari-Mutual | 166 | 147 | 143 | 121 | 116 |
| Inheritance and Estate | 4,900 | 366 | 334 | 78 | 293 |
| Realty Transfer | 116,875 | 90,934 | 75,967 | 44,586 | 46,875 |
| Alcoholic Beverage | 14,238 | 14,801 | 14,736 | 15,519 | 16,446 |
| Insurance Taxes | 59,196 | 88,254 | 80,828 | 77,271 | 51,838 |
| Bank Franchise | 132,726 | 175,161 | 129,704 | 81,783 | 54,005 |
| All Other | 418,269 | 466,420 | 493,910 | 539,152 | 648,803 |
| Total Taxes | 2,925,884 | 3,031,927 | 3,124,038 | 2,945,722 | 3,022,111 |
| Revenue Refunds | 203,192 | 244,676 | 291,777 | 298,220 | 296,348 |
| Net Taxes | 2,722,692 | 2,787,251 | 2,832,261 | 2,647,502 | 2,725,763 |
| Other Revenue | | | | | |
| Fees | 105,300 | 109,386 | 107,690 | 90,494 | 114,091 |
| Interest Earnings | 13,497 | 25,266 | 32,948 | 8,892 | 10,900 |
| Sales (2) | 308,783 | 320,476 | 323,847 | 325,053 | 350,483 |
| Grants, Donations and Special Income | 44 | 0 | 0 | 0 | 0 |
| Licenses | 10,994 | 15,902 | 11,666 | 15,832 | 11,775 |
| Other Revenue | 3,110 | 9,030 | 6,188 | 3,332 | 8,916 |
| Non-Revenue and Transfers | 5,495 | 22,901 | 42,141 | 56,922 | 13,214 |
| Total Other Revenue | 447,223 | 502,961 | 524,480 | 500,525 | 509,379 |
| **Total Receipts** | **$ 3,169,915** | **$ 3,290,212** | **$ 3,356,741** | **$ 3,148,027** | **$ 3,235,142** |
| **Disbursements** | | | | | |
| Legislative | $ 12,916 | $ 13,174 | $ 14,015 | $ 12,886 | $ 11,768 |
| Judicial | 84,956 | 89,391 | 92,279 | 88,921 | 86,357 |
| Executive | 272,865 | 275,008 | 161,064 | 150,286 | 89,887 |
| Technology and Information | 36,813 | 37,647 | 36,926 | 37,066 | 32,258 |
| Other Elective Offices | 55,280 | 56,542 | 79,380 | 54,367 | 54,173 |
| Legal | 37,010 | 41,614 | 44,759 | 43,770 | 41,289 |
| Department of State | 19,292 | 25,592 | 31,890 | 38,060 | 27,396 |
| Department of Finance | 66,065 | 45,628 | 33,382 | 26,597 | 24,332 |
| Department of Health and Social Services | 783,771 | 852,546 | 918,685 | 832,935 | 821,414 |
| Department of Children, Youth and Their Families | 116,700 | 131,660 | 135,344 | 127,140 | 118,206 |
| Department of Correction | 227,496 | 252,143 | 263,196 | 256,627 | 237,987 |
| Department of Natural Resources and Env. Control | 57,631 | 70,495 | 66,750 | 56,900 | 44,137 |
| Department of Safety and Homeland Security | 114,963 | 120,875 | 126,543 | 124,196 | 117,906 |
| Department of Transportation | 12,027 | 1,981 | 3 | - | - |
| Department of Labor | 7,068 | 7,330 | 8,110 | 7,360 | 6,178 |
| Other | 20,437 | 25,793 | 23,652 | 22,923 | 18,951 |
| Total Departments | 1,925,290 | 2,047,419 | 2,035,978 | 1,880,034 | 1,732,239 |
| Higher Education | 239,291 | 253,820 | 253,029 | 252,403 | 227,323 |
| Public Education | 1,015,959 | 1,088,657 | 1,132,639 | 1,163,102 | 1,116,947 |
| Total Education | 1,255,250 | 1,342,477 | 1,385,668 | 1,415,505 | 1,344,270 |
| **Total Disbursements** | **$ 3,180,540** | **$ 3,389,896** | **$ 3,421,646** | **$ 3,295,539** | **$ 3,076,509** |
| Receipts Over (Under) Disbursements | (10,625) | (99,684) | (64,905) | (147,512) | 158,633 |
| Cash Balance--Beginning of Period | 701,197 | 690,572 | 590,888 | 525,983 | 378,471 |
| **Cash Balance** | **$ 690,572** | **$ 590,888** | **$ 525,983** | **$ 378,471** | **$ 537,104** |

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2006 through June 30, 2010.

(2) Consists primarily of payments for board and treatment at State institutions and lottery receipts.

NOTE: Numbers are rounded and thus the sum of the detail may not equal the total.
Source: Department of Finance.

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

| | Fiscal Years Ended June 30 | | | | |
|---|---|---|---|---|---|
| | **2006 (1)** | **2007 (1)** | **2008 (1)** | **2009 (1)** | **2010 (1)** |
| Receipts | | | | | |
| Taxes | | | | | |
| Insurance | $ 24,107 | $ 27,241 | $ 30,494 | $ 26,209 | $ 24,321 |
| Local School Property | 349,193 | 386,832 | 416,881 | 427,014 | 435,961 |
| All Other | 289,476 | 363,852 | 372,447 | 425,131 | 356,336 |
| Total Taxes | 662,776 | 777,925 | 819,822 | 878,354 | 816,618 |
| Other Revenue | | | | | |
| Federal Grants and Reimbursements | 1,204,152 | 1,186,399 | 1,291,847 | 1,521,071 | 1,884,666 |
| Pension Fund Receipts | 162,595 | 170,100 | 181,024 | 176,382 | 180,576 |
| Interest Earnings | 33,931 | 52,737 | 51,361 | 25,328 | 16,661 |
| All Other | 801,823 | 881,799 | 965,447 | 981,174 | 983,269 |
| Total Other Revenue | 2,202,501 | 2,291,035 | 2,489,679 | 2,703,955 | 3,065,172 |
| Non-Revenue and Transfer | | | | | |
| Sale of Bonds | 136,850 | 392,030 | 210,666 | 252,202 | 211,693 |
| Receipts from Pension Fund | 562,820 | 564,015 | 535,836 | 558,052 | 575,419 |
| All Other | 845,323 | 797,030 | 857,656 | 860,229 | 873,255 |
| Total Non-Revenue and Transfer | 1,544,993 | 1,753,075 | 1,604,158 | 1,670,483 | 1,660,367 |
| Total Receipts | 4,410,270 | 4,822,035 | 4,913,659 | 5,252,792 | 5,542,157 |
| Total Disbursements | 4,384,805 | 4,557,734 | 4,923,979 | 5,164,419 | 5,643,645 |
| Receipts Over (Under) Disbursements | 25,464 | 264,301 | (10,320) | 88,373 | (101,488) |
| Operating Cash Balance-Beginning of Period | 1,012,112 | 1,036,762 | 1,298,653 | 1,291,554 | 1,379,132 |
| **Operating Cash Balance-End of Period** | **$ 1,037,576** | **$ 1,301,063** | **$ 1,288,333** | **$ 1,379,927** | **$ 1,277,644** |
| Other Cash | | | | | |
| Payables (2) | (814) | (2,411) | 3,221 | (795) | 23 |
| **Cash Balance** | **$ 1,036,762** | **$ 1,298,653** | **$ 1,291,554** | **$ 1,379,132** | **$ 1,277,667** |

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2006 through June 30, 2010.

(2) Payroll withholdings are no longer considered a State budgetary Special Fund. They are a General Ledger liability entry starting in fiscal 1987.

NOTE

Numbers are rounded and thus the sum of the detail may not equal the total.

Source: Department of Finance.

**THE STATE OF DELAWARE**
**COMBINED BUDGETARY GENERAL AND SPECIAL FUNDS**
**RECEIPTS, DISBURSEMENTS AND CASH BALANCES**
**(in thousands)**

| | Fiscal Years Ended June 30 | | | | |
|---|---|---|---|---|---|
| | **2006** [1] | **2007** [1] | **2008** [1] | **2009** [1] | **2010** [1] |
| Receipts | | | | | |
| Net Taxes | $ 3,385,512 | $ 3,565,176 | $ 3,637,083 | $ 3,525,849 | $ 3,546,383 |
| Interest Earnings | 47,428 | 78,003 | 84,309 | 34,220 | 27,561 |
| Grants, Donations and Special Income | 1,156,096 | 1,143,028 | 1,241,077 | 1,451,838 | 1,800,487 |
| Licenses | 14,523 | 20,517 | 16,485 | 23,523 | 18,268 |
| Fees | 247,263 | 246,886 | 260,996 | 233,779 | 274,355 |
| Sales | 373,403 | 401,066 | 413,913 | 417,857 | 448,708 |
| Other Revenue | 964,005 | 1,030,570 | 1,121,125 | 1,144,708 | 1,166,632 |
| Total Revenue | 6,188,229 | 6,485,246 | 6,774,988 | 6,831,774 | 7,282,394 |
| Non-Revenue and Transfers | 1,391,954 | 1,627,002 | 1,495,415 | 1,569,041 | 1,494,905 |
| Total Receipts | 7,580,184 | 8,112,248 | 8,270,403 | 8,400,815 | 8,777,299 |
| Total Disbursements | 7,565,345 | 7,947,629 | 8,345,624 | 8,459,958 | 8,720,154 |
| Receipts Over (Under) Disbursements | 14,838 | 164,619 | (75,221) | (59,143) | 57,145 |
| Cash Balance--Beginning of Period | 1,713,309 | 1,727,333 | 1,889,541 | 1,817,541 | 1,757,603 |
| **Cash Balance--End of Period** | **$ 1,728,147** | **$ 1,891,952** | **$ 1,814,320** | **$ 1,758,398** | **$ 1,814,748** |
| Other Cash | | | | | |
| Payables [2] | (814) | (2,411) | 3,221 | (795) | 23 |
| **Total Cash Balance** | **$ 1,727,333** | **$ 1,889,541** | **$ 1,817,541** | **$ 1,757,603** | **$ 1,814,771** |

[1] Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2006 through June 30, 2010.
[2] Payroll withholdings are no longer considered a State budgetary Special Fund. They are a General Ledger liability entry starting in fiscal 1987.

NOTE

Numbers are rounded and thus the sum of the detail may not equal the total.

Source: Department of Finance.

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**Appendix C**

## Basic Financial Statements for the State of Delaware: For the Year Ended June 30, 2010

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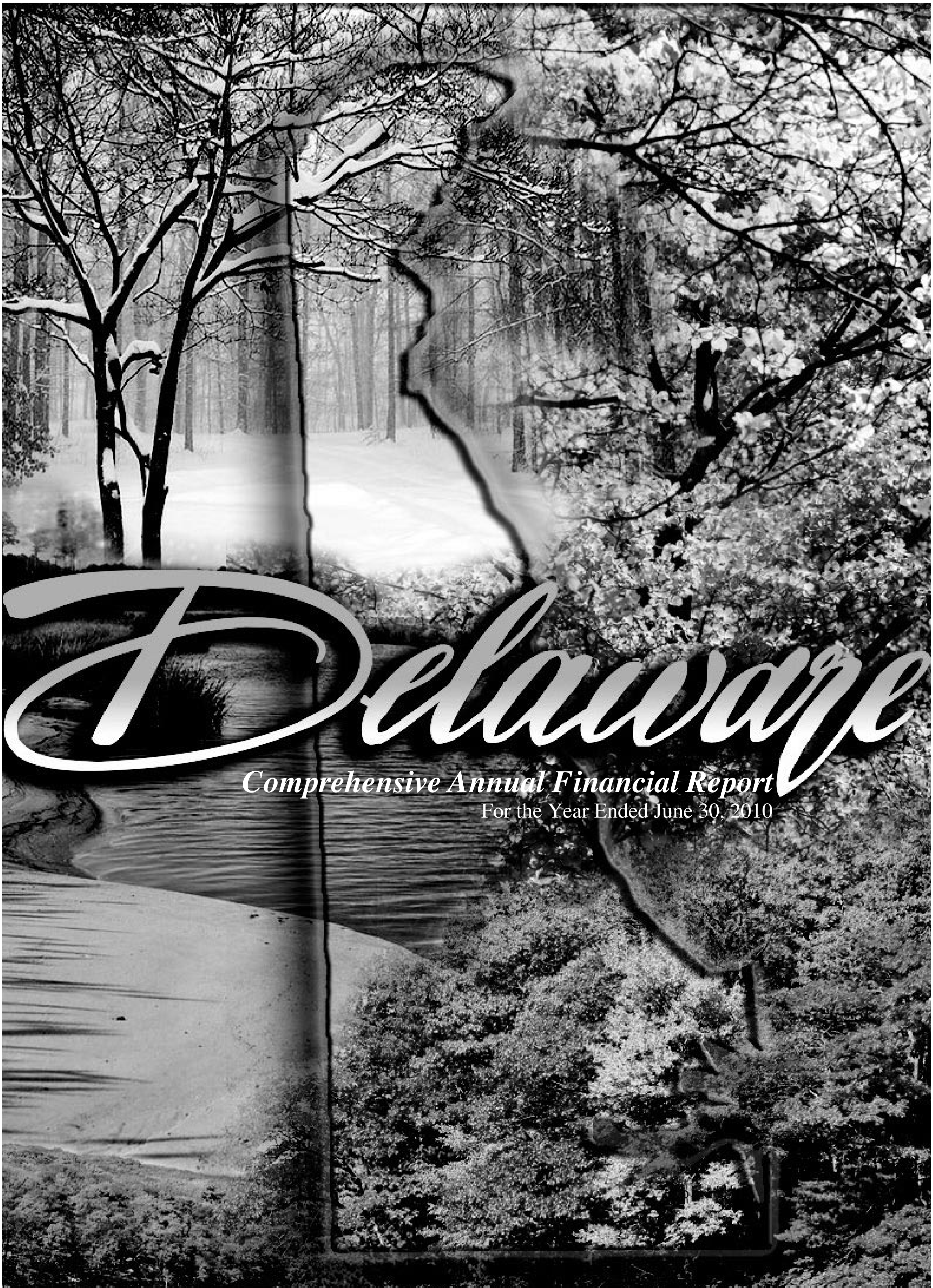

# Delaware

## Comprehensive Annual Financial Report

For the Year Ended June 30, 2010

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STATE OF DELAWARE
**OFFICE OF THE GOVERNOR**
TATNALL BUILDING, SECOND FLOOR
WILLIAM PENN STREET, DOVER, DE 19901

JACK A. MARKELL
GOVERNOR

PHONE: 302-744-4101
FAX: 302-739-2775

To the People of Delaware
and the Honorable Members of the
146th General Assembly:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the State of Delaware for the fiscal year ended June 30, 2010. In addition to providing sound information for investors, policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities. The CAFR includes the State's basic financial statements, prepared in conformity with U.S. generally accepted accounting principles and audited by the independent firm of KPMG LLP.

In spite of our recent economic challenges, I am pleased that each of the three major rating agencies, Moody's Investor Service, Fitch Ratings and Standard & Poor's, has recently reaffirmed the State's triple-A bond rating. Delaware is one of only eight states that hold the highest ratings and it places us among the most creditworthy states in the nation.

Please review the financial statements and disclosures presented here.

Sincerely,

Jack Markell

Jack A. Markell
Governor

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# State of Delaware

## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010


**Jack A. Markell**
**Governor**

**Thomas J. Cook**
**Secretary, Department of Finance**

**Valerie M. Watson**
**Acting Director, Division of Accounting**



Prepared by the Department of Finance, Division of Accounting

*This document and related information is available at http://accounting.delaware.gov/*

## Acknowledgments

The State of Delaware's Comprehensive Annual Financial Report was prepared by the Department of Finance, Division of Accounting, Financial Accounting & Reporting Section:

**Dawn Haw-Young, CPA, CGFM, CICA**
Manager of Financial Reporting & Internal Control

**Elijah Wilson, CICA**
State Accountant V

**Brennon Fountain, CICA**
State Accountant IV

**Jennifer Spence, CICA**
State Accountant IV

**Christine Talley, CICA**
State Accountant IV

Special appreciation to:

All fiscal and accounting personnel throughout the State whose efforts and cooperation to submit accurate, timely financial data for their agencies made this report possible.

**State of Delaware**
**Comprehensive Annual Financial Report**
**For the Fiscal Year Ended June 30, 2010**
**Table of Contents**

**Component Unit Financial Statements**



**Notes to the Financial Statements**



**Required Supplementary Information**



**Supplementary Information – Combining Statements**

**STATISTICAL SECTION**


GREAT SEAL OF THE STATE OF DELAWARE
•1704•1776•1787•
LIBERTY AND INDEPENDENCE

Delaware's Comprehensive Annual Financial Report
June 30, 2010

# INTRODUCTORY SECTION

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**STATE OF DELAWARE**
**DEPARTMENT OF FINANCE**
**OFFICE OF THE SECRETARY**

**THOMAS J. COOK**
**SECRETARY OF FINANCE**

December 29, 2010

To the Citizens, Governor, and
Members of the Legislature of the
State of Delaware:

It is my pleasure to present the Comprehensive Annual Financial Report (CAFR) for the State of Delaware (the State) for the fiscal year ended June 30, 2010. This report has been prepared in accordance with U.S. generally accepted accounting principles (GAAP) applicable to state and local governments, as prescribed by the Governmental Accounting Standards Board (GASB). The State continues to follow the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the form and content of government financial reports and participates in the GFOA's program for the Certificate of Achievement for Excellence in Financial Reporting.

Responsibility for both the accuracy of the data, as well as the completeness and fairness of the CAFR's presentation, rests with the Department of Finance. To the best of our knowledge and belief, the information presented is accurate in all material respects and fairly sets forth the State's financial position and results of operations in accordance with GAAP and based upon the internal control structure established by management. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

## PROFILE OF THE GOVERNMENT

The State is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean, the Delaware Bay and the states of New Jersey, Pennsylvania and Maryland. The State is 96 miles long and has a land area of 1,955 square miles. Over 873,000 people reside here. As the first state to ratify the United States Constitution on December 7, 1787, Delaware is known as "The First State." The structure of Delaware's government, which is similar to other states, consists of three branches that operate through a system of checks and balances. The executive branch is comprised of the Governor, Lt. Governor, State Treasurer, State Auditor, Attorney General and Insurance Commissioner. The legislative branch is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The judicial branch includes the Supreme Court, Superior Court, Court of Chancery, and other courts.

**Carvel State Office Building, 820 N. French St., 8th Floor, Wilmington, Delaware 19801**
**Telephone: (302)577-8979 • Fax: (302)577-8982**

The State's reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms to the requirements of GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* Further, GASB Statement No. 14 provides that the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories - the budgetary general fund or budgetary special funds. References to these funds include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. GAAP fund definitions for accounting purposes differ from those of the budgetary basis general and special funds and are fully explained in Note 1 to the basic financial statements.

The budgetary general fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary special funds. All disbursements from the budgetary general fund must be authorized by appropriations of the General Assembly.

Budgetary special funds are designated for specific purposes. The appropriate budgetary special fund is credited with tax or other revenue allocated and is charged with the related disbursements. Examples of specific uses of budgetary special funds include the Transportation Trust Fund, which collects some of its revenue through motor fuel taxes and tolls. Federal payments, unemployment compensation and local school funds are examples of nonappropriated special funds. Some special funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

Federal funds, which are credited to budgetary special funds, are not appropriated, but are subject to the review and approval of the State Office of Management and Budget and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of the Office of Management and Budget, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

**Budgetary Control and Financial Management Systems**

Disbursements are controlled by an encumbrance accounting system designed to provide information on the actual extent of the State's obligations and guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary general fund cash disbursements, plus unliquidated encumbrances, cannot exceed the amount appropriated by the General Assembly for any specific budgetary line items by department. Internal controls prevent State organizations from spending beyond budgetary limits (see Notes to Required Supplementary Information for more details).

Although the majority of the State's financial transactions are processed through the State's primary accounting system, certain special funds have financial activity external to that system, such as the

Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University. This activity is governed in strict adherence to legislative regulations and guidelines established by their boards. In addition, these entities are audited annually and produce published financial reports.

**Budget Process**

Each fall, State organizations submit requests for operating and capital funds for the next fiscal year to the Office of Management and Budget and public hearings are held to review the requests. The Governor's proposed operating and capital budgets for the general fund and special funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets. As amended, the budgets are expected to be enacted on July 1.

**Appropriation Limit**

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary general fund revenue plus the unencumbered budgetary general fund balance from the previous fiscal year. An exception to this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly. No appropriation may be made which exceeds 100% of estimated budgetary general fund revenue plus the unencumbered general fund balance from the previous fiscal year.

**Tax Limitations**

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees to a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote. An exception exists for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

**Revenue and Expenditure Forecasting**

The Delaware Economic and Financial Advisory Council (DEFAC), an entity created by executive order in 1977, is required to submit revenue forecasts for the budgetary general fund and Transportation Trust Fund to the Governor and the General Assembly. The committee is comprised of 34 members, appointed by the Governor, from the executive and legislative branches of State government and the private sector.

DEFAC prepares revenue estimates six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A revenue forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, generally in September. Budgetary general fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

## ECONOMIC CONDITION AND OUTLOOK

Since fiscal 2004, the State's economic performance has been mixed relative to national trends. While Delaware's income growth has largely matched that of the United States, the State's employment growth has failed to keep pace with national trends. While the State's ties to the national economy are unmistakable, throughout the recent business cycle, the State consistently posted lower unemployment rates than the United States.

The State's mixed recent performance is due, in part, to the changing composition of its economic base. With a heavy concentration in financial services, the State's economy could not avoid the effects of recent industry turmoil. Despite this uncertainty, the State's major employers, Bank of America and JP Morgan Chase, for example, continue to maintain a major presence in the State. At the same time, relative new comers, like ING and Barclays, demonstrate that Delaware should maintain its position as a financial center.

Delaware's long-established manufacturing sectors, automobiles and fibers have also suffered as a result of the worst economic downturn since World War II. With both of the State's automobile assembly plants and its sole oil refinery no longer in operation, the State's blue collar employment has suffered. In response to these setbacks, however, the State has made important strides to reinvigorate and modernize its manufacturing base. A buyer for the Delaware City refinery has been identified and initial signs point to a spring 2011 reopening of the facility. Fisker Automotive's purchase of the State's former General Motors assembly plant has given the facility new life. Fisker is expected to invest $175 million in the facility in order to produce the Nina, a family sedan that will feature a plug-in hybrid power vehicle.

Since the adoption of the Financial Center Development Act in 1981, diversifying the State's economy has consistently ranked among State policymakers' highest priorities. The State's economic development efforts have followed a two-pronged approach. Broadly speaking, the State has continually improved its business climate using a combination of prudent fiscal management, judicious tax policy, and strategic investments in public education and infrastructure. When faced with specific challenges, alert and supportive policymakers have teamed with the business community to develop effective policy responses to a changing economic landscape.

In March 2010, the U.S. Department of Education announced that the State was one of only two recipients to be awarded "Race to the Top" federal funding. Race to the Top is a federal education funding program that is funded under the American Recovery and Reinvestment Act to reward states for aggressively reforming their education systems. The State will receive over $100 million in Race to the Top funding which will be paid out over the next four years.

In May 2009, Governor Jack Markell signed a sports betting bill into law that reactivated a sports lottery in Delaware, one of only four states exempt from the federal ban on sports betting under the Professional and Amateur Sports Protection Act enacted in 1992. Delaware's bill allows a sports lottery in the State's three existing racinos, using single game wagers on professional and certain collegiate athletic events. Delaware's position was challenged by the National Football League ("NFL") and other pro sports leagues, along with the NCAA, and in August 2009, a three-judge panel of the 3rd U.S. Circuit

Court of Appeals declared that the State's single-game bets and wagering on a variety of professional and collegiate sports violated the federal law. The State appealed the 3rd Circuit's decision to the United States Supreme Court which on May 3, 2010 declined to hear the case. As such, the State's three racinos will continue to offer three-game parlay bets on NFL games. In January 2010, Delaware passed legislation permitting its racinos to operate table games such as blackjack, craps and roulette. Table games, which are expected to enhance the State's position in an increasingly competitive gaming market, increase employment, and add revenue to the State's coffers are expected to be operational early in fiscal 2011.

The State continues to pursue high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology, information technology and, more recently, alternative energy and other green industries. The State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, Delaware's higher education institutions and the private sector. The Institute is designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

The State's business friendly legal system continues to attract new incorporations. In recent years, more than 70% of new U.S. initial public offerings ("IPO") have chosen the State of Delaware as their legal domicile. Even though IPO activity has suffered from economic and other factors, the State has continued to register a record number of business formations in the form of LLCs and LPs.

## INDEPENDENT AUDIT

The accounting firm of KPMG LLP has audited the State's basic financial statements for the fiscal year ended June 30, 2010. Based upon that audit, the independent auditor has issued an unqualified opinion that the State of Delaware's basic financial statements are fairly presented in conformity with GAAP. Their report on the basic financial statements has been included in the financial section of this CAFR.

The State Auditor of Accounts performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education and has primary responsibility for conducting audits under the federal Single Audit Act of 1984 which was amended by Single Audit Act of 1996. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, Townsend Building, Suite 1, 401 Federal Street, Dover, Delaware 19901.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its CAFR for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish a timely, easily readable, and efficiently organized comprehensive annual financial report that conforms to program standards. The report must comply with both generally accepted accounting principles and all applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The State has received a Certificate of Achievement for the last 15 consecutive years (fiscal years 1995 – 2009). We believe that this year's report continues to conform to the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

The Department of Finance takes great pride in the preparation of this Comprehensive Annual Financial Report. I wish to express my sincere appreciation to the many individuals whose dedicated efforts have made this report possible. This report could not have been accomplished without the professionalism and dedication demonstrated by the Division of Accounting and the financial and management personnel of each State agency, component unit, and all other organizations within the reporting entity. This report is also available on the Internet at: **http://accounting.delaware.gov/cafrdefault.shtml.**

Sincerely,

Thomas J. Cook
Secretary of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Delaware

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

**State of Delaware**
**Selected State Officials**
**As of June 30, 2010**

KEY ELECTED OFFICIALS:

| | |
|---|---|
| Governor | Jack A. Markell |
| Lt. Governor | Matthew Denn |
| Attorney General | Joseph R. Biden III |
| State Treasurer | Velda Jones-Potter |
| State Auditor | R. Thomas Wagner, Jr. |
| Insurance Commissioner | Karen Weldin Stewart |

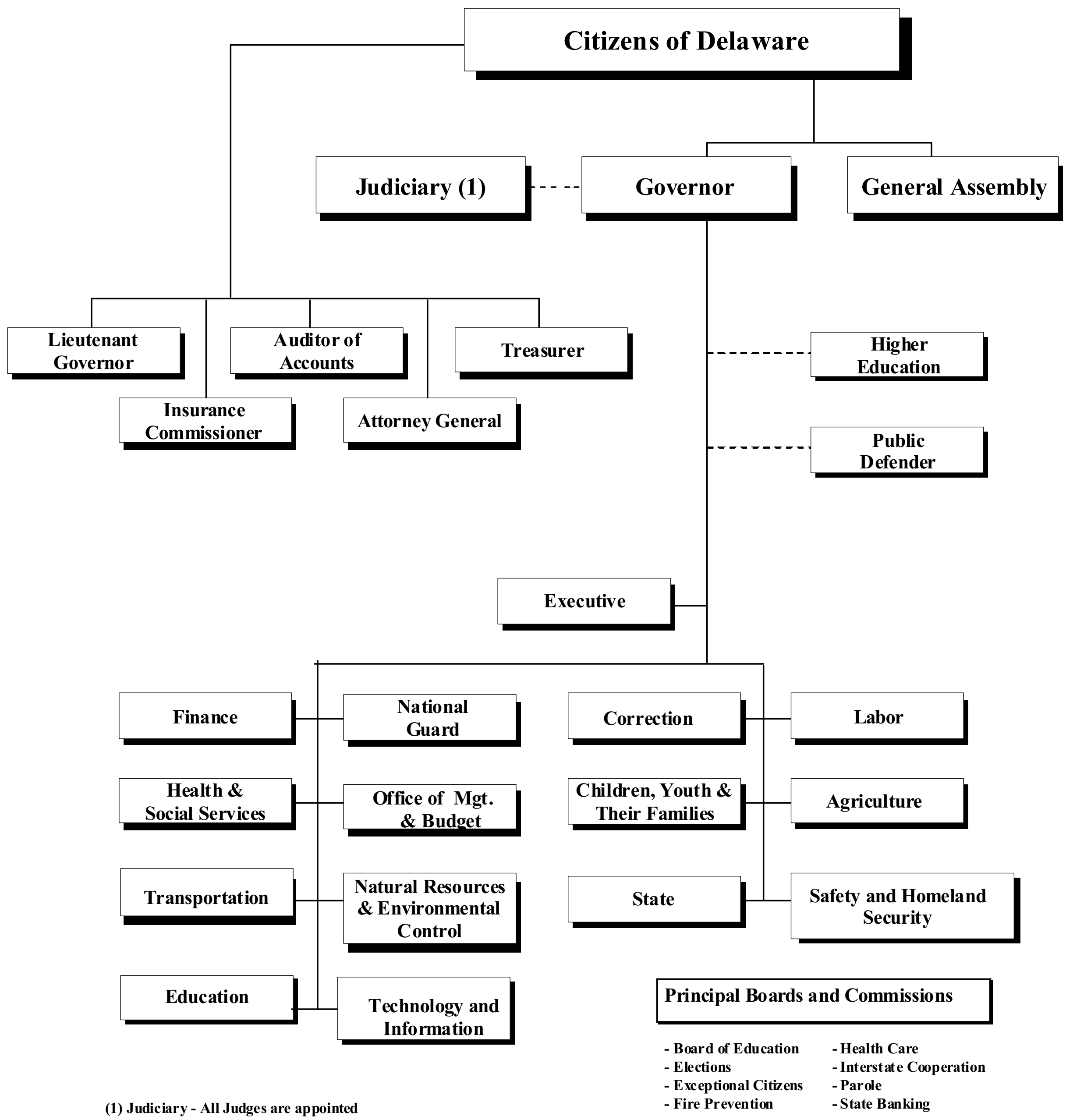
KEY LEGISLATIVE OFFICIALS:

| | |
|---|---|
| President Pro Tem of the Senate | Anthony J. DeLuca |
| Senate Majority Leader | Patricia M. Blevins |
| Senate Minority Leader | F. Gary Simpson |
| Speaker of the House of Representatives | Robert F. Gilligan |
| House of Representatives Majority Leader | Peter C. Schwartzkopf |
| House of Representatives Minority Leader | Richard C. Cathcart |

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

| | |
|---|---|
| Agriculture | W. Edwin Kee, Jr. |
| Correction | Carl C. Danberg |
| Delaware Economic and Development Office | Alan B. Levin |
| Delaware State Housing Authority | Anas Ben-Addi |
| Education | Lillian M. Lowery, Ed. D |
| Finance | Thomas J. Cook |
| Health and Social Services | Rita M. Landgraf |
| Labor | John McMahon |
| Delaware National Guard | (Major General) Francis D. Vavala |
| Natural Resources and Environmental Control | Collin P. O'Mara |
| Office of Management and Budget | Ann S. Visalli |
| Safety and Homeland Security | Lewis D. Schiliro |
| Services for Children, Youth and Their Families | Vivian L. Rapposelli |
| State | Jeffrey W. Bullock |
| Technology and Information | James M. Sills III |
| Transportation | Carolann Wicks |

## State of Delaware
## Organizational Chart




(1) Judiciary - All Judges are appointed by the Governor with the consent of the Senate.

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# FINANCIAL SECTION

**KPMG LLP**
1601 Market Street
Philadelphia, PA 19103-2499

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State), as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 (b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 51, *Accounting and Financial Reporting for Intangible Assets* during fiscal year 2010.

KPMG

The management's discussion and analysis and required supplementary information listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, supplementary information – combining statements section, and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information – combining statements section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, in conjunction with other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the 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

December 29, 2010

# Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report, and the State's financial statements, which follow this section.

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

**Financial Highlights**

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5,202.5 million (net assets). Component units reported net assets of $775.1 million, an increase of $6.2 million from the previous year.

- As a result of its operations, the primary government's total net assets decreased by $2.2 million (less than 0.1%) in fiscal year 2010 when compared to the previous year's ending net assets. Net assets of governmental activities increased by $37.8 million (1.7%) from the previous year, while net assets of the business-type activities decreased $39.9 million (1.3%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,422.7 million, an increase of $111.6 million (8.5%) in comparison with the prior year.

- At the end of the current fiscal year, the unreserved fund balance for the general fund was $843.6 million, which was 22.5% of total general fund expenditures. Some of the unreserved fund balance is not available for new spending as such funds have been committed based on State statutes that can be amended by legislation.

- The State's total general obligation debt increased $28.1 million (1.9%) during fiscal year 2010 to $1,497.4 million. Of the State's outstanding debt, $516.0 million (34.5%) has been issued on behalf of local school districts, which is supported by the property tax revenues of those districts.

**Overview of the Financial Statements**

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

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

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

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

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

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 21 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 21-23 of this report.

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

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

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

The State's governmental funds include the general, federal, local school district, and capital projects funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance (deficit) for these funds.

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

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 124 of this report.

***Proprietary funds*** Proprietary funds charge customers for the services they provide – whether they are provided to outside customers (enterprise funds) or other State agencies and other governments (internal service funds). Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the Delaware Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

The State uses proprietary funds to account for operations of the Unemployment Insurance Trust Fund, Delaware State Lottery (Lottery), and DelDOT as business-type activities in the government-wide financial statements. The State does not maintain any internal service funds.

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

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

The basic fiduciary fund financial statements can be found on pages 31 - 32 of this report. Combining fiduciary fund statements can be found on pages 136 - 142.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36 - 119 of this report.

**Required supplementary information** In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension trusts. The RSI can be found on pages 122 - 134 of this report.

**Other supplementary information** Other supplementary information includes the introductory section, the combining financial statements for fiduciary and local school funds, and the statistical section.

**Statewide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's assets exceeded its liabilities by $5,202.5 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (88.5%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 6.2% 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 (5.3%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

**Condensed Financial Information - Primary Government**
**As of June 30, 2010**
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other non-current assets | $ 2,406,051 | $ 2,400,728 | $ 532,782 | $ 580,087 | $ 2,938,833 | $ 2,980,815 |
| Capital assets | 3,416,605 | 3,157,814 | 3,899,468 | 3,824,481 | 7,316,073 | 6,982,295 |
| Total assets | 5,822,656 | 5,558,542 | 4,432,250 | 4,404,568 | 10,254,906 | 9,963,110 |
| Long-term liabilities outstanding | 2,823,441 | 2,376,206 | 1,239,200 | 1,170,735 | 4,062,641 | 3,546,941 |
| Other liabilities | 743,208 | 964,110 | 246,516 | 247,356 | 989,724 | 1,211,466 |
| Total liabilities | 3,566,649 | 3,340,316 | 1,485,716 | 1,418,091 | 5,052,365 | 4,758,407 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,799,599 | 1,665,199 | 2,803,634 | 2,727,661 | 4,603,233 | 4,392,860 |
| Restricted | 186,430 | 186,430 | 137,831 | 202,220 | 324,261 | 388,650 |
| Unrestricted | 269,978 | 366,597 | 5,069 | 56,596 | 275,047 | 423,193 |
| Total net assets | $ 2,256,007 | $ 2,218,226 | $ 2,946,534 | $ 2,986,477 | $ 5,202,541 | $ 5,204,703 |

The capital assets of the governmental activities increased $258.8 million (8.2%) since June 30, 2009. Primary increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population

The State's securities lending activities were discontinued on December 4, 2009. Therefore at June 30, 2010, investments held for securities lending transactions and the corresponding collateral held for securities lending transactions were $0.0 million. As a result, both current assets and other liabilities decreased by $211.2 million from fiscal year 2009.

The increase in governmental activities long-term liabilities outstanding of $447.2 million (18.8%) is primarily due to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). At June 30, 2010, the long-term obligation for OPEB was $986.9 million, an increase of $324.4 million (49.0%) from fiscal year 2009. The OPEB obligation will increase each year as the State continues to defer full funding of its annual required contribution. Additional information for the OPEB obligation can be found in Note 14 of the financial statements. In addition, the general obligation long term debt increased by $95.5 million (6.9%). The State's debt as a percentage of the State's personal income was 7.4% in fiscal year 2009 and 7.5% in fiscal year 2010. The State's relatively high debt burden reflects its centralized role in financing facilities, such as schools and prisons, which in other states receive capital through local entities. Bond sales during fiscal year 2010 included two refundings, including advance refundings, which resulted in an increase in prepaid assets of $34.6 million.

The decrease in business-type current assets was primarily from the decrease of $60.8 million in current assets in the Unemployment Trust Fund. The decrease was caused by an increase of benefits paid. The decrease was offset by an increase in DelDOT's current assets due to unspent bond proceeds from the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEE) during the fiscal year, which resulted in larger investment balances in DelDOT. Long-term liabilities outstanding were also increased as a result of increased revenue bonds payable and post-employment benefits payable. This information can be found on page 2 of the DelDOT's financial statements as of and for the year ended June 30, 2010.

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

## Changes in Net Assets - Primary Government
## For Year End June 30, 2010
(Expressed in Thousands)

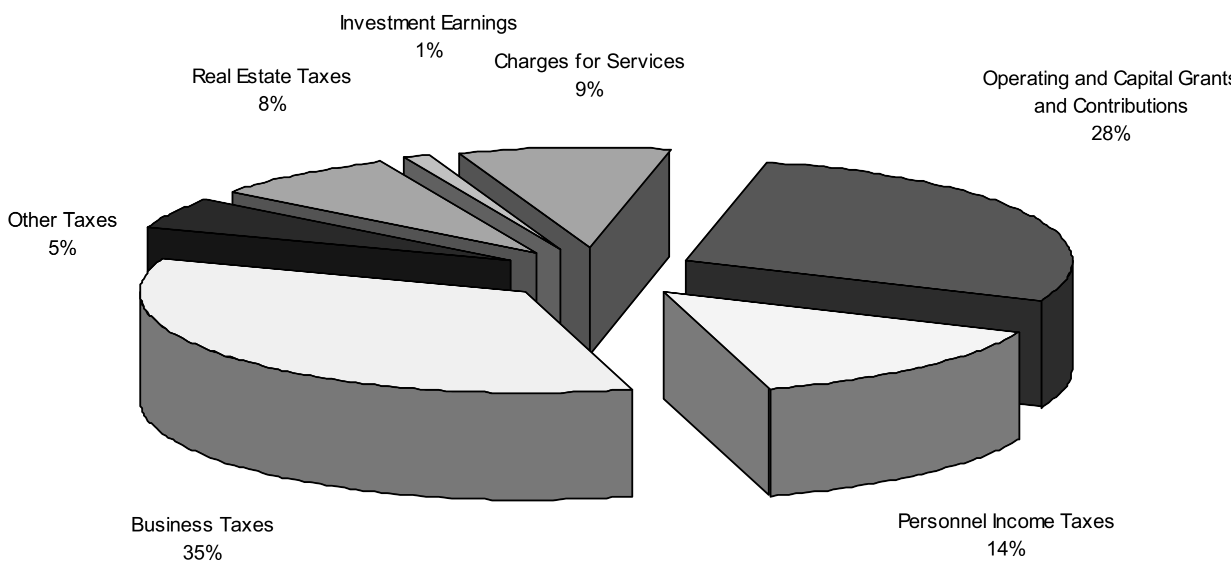
| | Governmental Activities 2010 | Governmental Activities 2009 | Business-type Activities 2010 | Business-type Activities 2009 | Total Primary Government 2010 | Total Primary Government 2009 |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 453,202 | $ 344,153 | $ 1,236,049 | $ 1,206,962 | $ 1,689,251 | $ 1,551,115 |
| Operating grants and contributions | 1,460,903 | 1,199,961 | 196,889 | - | 1,657,792 | 1,199,961 |
| Capital grants and contributions | 30,861 | 9,936 | 238,276 | 193,219 | 269,137 | 203,155 |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Personal income taxes | 760,617 | 914,460 | - | - | 760,617 | 914,460 |
| Business taxes | 1,820,023 | 1,655,938 | - | - | 1,820,023 | 1,655,938 |
| Real estate taxes | 434,718 | 428,878 | - | - | 434,718 | 428,878 |
| Other taxes | 250,630 | 238,786 | - | - | 250,630 | 238,786 |
| Investment income (loss) | 20,185 | 41,140 | (15,336) | 11,686 | 4,849 | 52,826 |
| Gain (loss) on sale of assets | - | - | (415) | 235 | (415) | 235 |
| Miscellaneous | 15,546 | 29,197 | (1,000) | (1,000) | 14,546 | 28,197 |
| Total revenues | 5,246,685 | 4,862,449 | 1,654,463 | 1,411,102 | 6,901,148 | 6,273,551 |
| Expenses: | | | | | | |
| General Government | 436,025 | 551,390 | - | - | 436,025 | 551,390 |
| Health and Children's Services | 2,059,215 | 1,980,118 | - | - | 2,059,215 | 1,980,118 |
| Judicial and Public Safety | 624,565 | 641,296 | - | - | 624,565 | 641,296 |
| Natural Resources and Environmental Control | 148,776 | 154,871 | - | - | 148,776 | 154,871 |
| Labor | 74,163 | 77,911 | - | - | 74,163 | 77,911 |
| Education | 2,146,258 | 2,102,297 | - | - | 2,146,258 | 2,102,297 |
| Interest Expense | 55,782 | 57,570 | - | - | 55,782 | 57,570 |
| Lottery | - | - | 353,449 | 388,260 | 353,449 | 388,260 |
| Transportation | - | - | 626,012 | 602,296 | 626,012 | 602,296 |
| Unemployment | - | - | 379,065 | 203,817 | 379,065 | 203,817 |
| Total expenses | 5,544,784 | 5,565,453 | 1,358,526 | 1,194,373 | 6,903,310 | 6,759,826 |
| Increase (decrease) in net assets before transfers | (298,099) | (703,004) | 295,937 | 216,729 | (2,162) | (486,275) |
| Transfers | 335,880 | 335,468 | (335,880) | (335,468) | - | - |
| Increase (decrease) in net assets | 37,781 | (367,536) | (39,943) | (118,739) | (2,162) | (486,275) |
| Net assets - beginning of year | 2,218,226 | 2,585,762 | 2,986,477 | 3,105,216 | 5,204,703 | 5,690,978 |
| Net assets - end of year | $ 2,256,007 | $ 2,218,226 | $ 2,946,534 | $ 2,986,477 | $ 5,202,541 | $ 5,204,703 |

**Governmental activities** Since fiscal year 2009, the net assets for governmental activities increased by $37.8 million, while the net assets for business-type activities decreased by $39.9 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the decrease in the State's governmental activities net assets are as follows:

Total general revenues decreased overall by $6.7 million (0.2%) relating to decreases in net personal income taxes of $153.8 million and investment earnings of $21.0 million. The decrease in personal income taxes is primarily due to reduction in taxes receivable resulting from a modification of the write-off period from ten years to six. Real estate taxes increased by $5.8 million and business and other taxes increased by $175.9 million. During the fiscal year 2010, the State enacted a taxpayer amnesty program to allow taxpayers (both business and personal) to file taxes for prior years with no penalties. This resulted in an increase in business taxes collected.

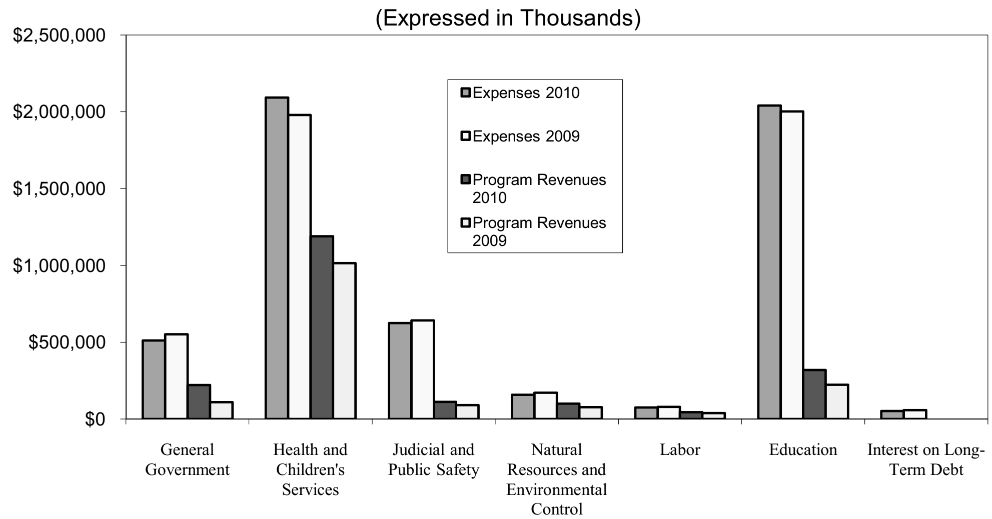
Program revenues increased by $390.9 million (25.2%) from the prior year partially due to an increase in operating grants of $260.9 million. Of this amount, $124.5 million relates to increased federal revenues at Health and Children's Services as a result of increased spending for Medicaid (the State's largest public assistance program) and $89.9 million relates to increased federal revenue at Education. Also, charges for services increased by $109.0 million. Of this increase, $45.0 million was in general government and $7.3 million was in judicial and public safety due to increases in charges relating to licenses, fines, fees and permits.

**Revenues by Source – Governmental Activities**




Expenses for governmental activities decreased during fiscal year 2010 by $20.7 million (0.4%). This decrease is primarily due to the decrease in general government of $115.4 million due to decrease in spending from mandated spending reductions. Offsetting this decrease is due to Health and Children's Services increased spending of $79.1 million due to increase in the population served and health care costs. Educational expenses increased by $44.0 million due to the continued increase in student population resulting in additional education personnel costs and operation costs.

**Expenses and Program Revenues- Governmental Activities**



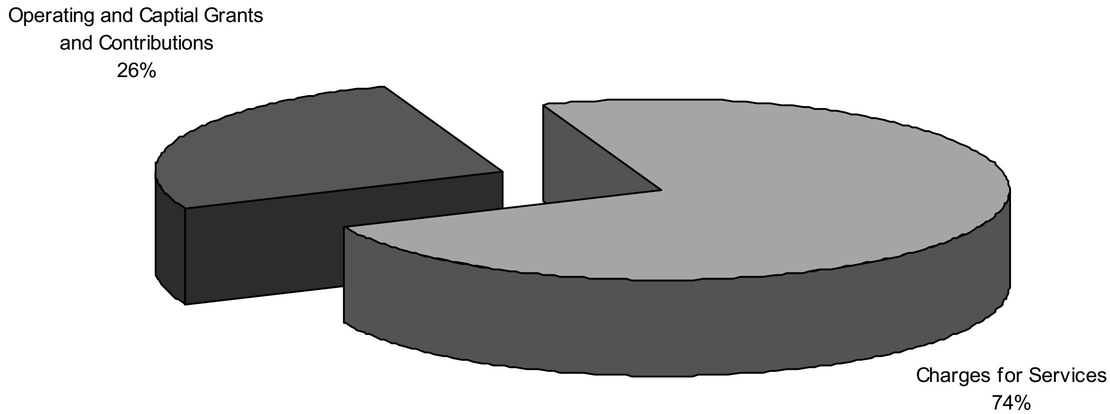

**Business-type activities** The net assets for business-type activities decreased by $39.9 million since fiscal year 2009. This decrease is comprised of a $20.2 million increase in net assets for DelDOT, a $60.7 million decrease in the Unemployment Insurance Trust Fund, and a less than $0.6 million increase of Lottery's net assets.

There was a decrease in net assets of the Delaware Unemployment Insurance Trust Fund of $60.7 million. There was an increase in operation revenues and operating expenses of $239.8 million and $175.2 million, respectively. This was due to the federal government funding the benefits for the Trust Fund.

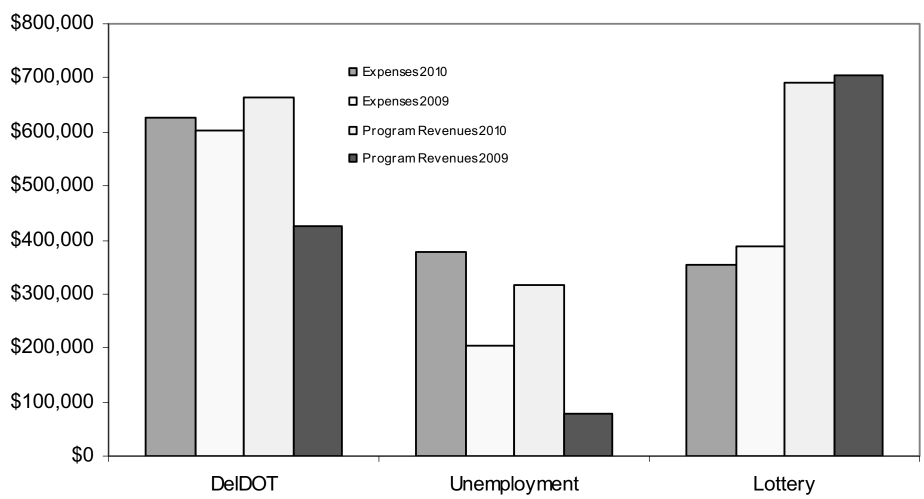
DelDOT's net assets at June 30, 2010 were $20.2 million higher than at June 30, 2009. DelDOT's total operating revenues increased by $0.9 million (0.2%) while operating expenses increased by $20.4 million (3.6%). The October 1, 2009 toll and fee increases were the main contributors of the operating revenue increase. The largest contributing factor for the increase in operating expenses was the increase in vehicle operations expenses, primarily from higher fuel costs.

The Lottery's net assets changed by less than $0.6 million. By law, the Lottery's net assets cannot exceed $1.0 million. Revenue for the Lottery decreased by $14.6 million (2.1%) over last year due to a $0.3 million decrease in traditional games revenue and a $14.3 million decrease in video lottery revenues. The Lottery transferred $334.6 million in gaming revenues to the State, an increase from fiscal year 2009 of $19.8 million. The total costs of games and prizes decreased by $37.5 million (9.8%) over the previous year.

**Revenues by Source – Business-type Activities**




**Expenses and Program Revenues – Business-type Activities**



## Financial Analysis of the State's Funds

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

***Governmental funds*** The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State'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's governmental funds reported combined ending fund balances of $1,422.7 million, an increase of $111.6 million over the prior year. Of the aggregate fund balances, $1,057.8 million, approximately 74.3% constitute unreserved fund balances.

Approximately $364.9 million of the fund balance is reserved and is not available for new spending for the following reasons: 1) to liquidate contracts and purchase orders of the prior period ($131.1 million), 2) set aside for long-term portion of loans and notes receivable ($39.4 million) 3) set aside for the budgetary reserve account ($186.4 million), and 4) for inventories and other assets ($8.0 million).

***General fund*** The general fund accounts for the operation and administration of the State. Total general fund balance increased by $140.2 million for the fiscal year.

Total general fund revenues increased by $76.4 million (2.3%) due to several factors. The business taxes increased by $164.1 million partly due to the effects of a full year of tax increases that took effect in January 2009 and partly due to collections from the tax amnesty program that was implemented during fiscal year 2010. This increase was offset by a reduction in personal income tax revenue of $170.7 million primarily due to a reduction in the write-off period for receivables from 10 years to six, as well as a continuing level of higher unemployment. Due to the effect of adverse market conditions on investments and lower interest rates, interest and other investment income decreased by $17.7 million.

Total general fund expenditures decreased by $191.7 million (4.9%). This was primarily due to decreases in Health and Children's Services of $55.8 million, General Government of $101.0 million, Education of $57.8 million and Natural Resources and Environmental Control of $13.8 million. The decrease in expenditures for General Government, Education and Natural Resources and Environmental Control were attributable to the increase on the federal funding as a result of the stimulus package.

At the end of the current fiscal year, unreserved fund balance of the general fund was $843.6 million, while total fund balance reached $1,196.4 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 22.5% of total general fund expenditures, while total fund balance represents 32.0% of total fund expenditures or 117 days of operations.

***Federal funds*** Federal funds represent pass through grants used for designated purposes. These funds report federal grant revenues and the related expenditures to support the State's grant programs. Total federal fund revenues and expenditures increased by $231.8 million and $269.8 million, respectively. The primary increase in federal revenues was due to the American Recovery and Reinvestment Act (ARRA). The largest portion of this increase in expenditures is in Health and Children's services, which accounted for $118.3 million (12.9%), resulting from increased costs in the Medical Assistance and the Temporary Assistance for Needy Families programs. Also, spending on energy programs by the Department of Natural Resources and Environmental Control increased expenditures by $12.4 million. Education has increased by $117.4 million due to the operating needs of the schools for personnel and supply costs.

***Local School funds*** These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance increased by $81.0 million to $308.4 million. Spending decreased because of operating costs being covered by federal funds.

***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 $241.1 million in fiscal year 2010, a decrease of $29.8 million. State legislation authorizes certain capital project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of general fund revenue.

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

Total proprietary funds net assets decreased in fiscal year 2010 by $39.9 million as a result of operations. Page 12 discusses the changes in net assets of the business-type activities.

## General Fund Budgetary Highlights

The budgetary general fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance increased by $158.6 million (41.4%). Revenues were $85.2 million (2.5%) higher than the previous fiscal year. This was primarily due to increases in abandoned property collections of $101.1 million (25.8%), corporate franchise tax of $58.9 million (10.3%), gross receipts tax of $30.5 million (18.6%), and lottery earnings of $27.5 million (11.1%). Offsetting these revenue increases were decreases in the personal income tax of $43.7 million (4.0%), bank franchise tax of $27.8 million (34.0%) and insurance premiums tax of $25.5 million (32.9%). While the State's revenue performance reflected continued weakness in the U.S. economy, collections were bolstered by rate increases in the personal income, corporate franchise and gross receipts taxes; a tax amnesty program; and the expansion of the State's lottery offerings.

Expenditures were $219.1 million (6.6%) less than the previous fiscal year. Salaries and wages decreased by $70.8 million (5.8%) due to an employee pay cut of 2.5% and reduction of staff due to attrition. Grants-in-Aid decreased by $70.4 million (26.5%) while Medicaid increased by $9.3 million (2.2%). In addition, contractual services decreased by $31.3 million (10.9%), personal services and travel decreased by $24.0 million (11.8%) and capital outlays decreased by $21.4 million (51.6%) reflecting various cost cutting measures. Debt service payments increased by $17.8 million (11.4%).

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants until the funds are spent.

Actual expenditures were within the final budget in all departments, with significant favorable budget variances in the following departments:

- $76.6 million in the Executive Department for funds budgeted, but not spent on an ongoing significant capital improvement project to upgrade the State's emergency response system and other minor capital projects;
- $58.3 million in the Department of Education for funds budgeted, but not spent on educational projects such as the statewide testing program to assist the State with compliance of the No Child Left Behind Act;
- $10.3 million in Natural Resources and Environmental Control for expenditures authorized in the final budget but not spent on energy incentives and incentives for improving the environment such as storm water retention ponds, environmental clean up, and water conservation; and,
- $31.6 million in the Department of Health and Social Services, as well as $11.3 million in the Department of Children, Youth and Their Families for programs that have been rendered but not yet billed such as Delaware Healthy Children Program costs.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2011. Unspent funds are reflected in the final budget which may cause variances from original budget.

## Capital Assets and Debt Administration

**Capital assets** The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2010, amounted to $7,316.1 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $258.8 million (8.2%) and the increase for business-type activities was $75.0 million (2.0%).

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

- Completion of new schools and renovations of existing schools of $225.5 million. In addition, construction-in-progress for governmental activities was $399.8 million as of June 30, 2010. Approximately 84.2% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.
- The increase in business-type activities is due to increased spending at DelDOT for the US 301 toll road project.

As allowed by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,447 center line miles of roads and 1,566 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every two years. Historically, road condition assessments were conducted every year. Recent changes to the road condition vendor contract have resulted in the inability to provide infrastructure ratings for fiscal year 2010. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period.

Of the State's 1,556 bridges that were rated in fiscal year 2009, 73.5% received a good or better BCR rating, 19.0% were rated fair, and 7.5% received a substandard rating. Of the 7,330,395 square feet of bridge deck that was rated, 92.8% or 6,800,531 square feet received an OPC condition rating of good or better, 6.9% received a fair rating, and 0.3% received a substandard deck rating. In 2008, 4,447 center line miles were rated; 90.1% received a fair or better OPC rating and 9.9% received a poor rating.

The fiscal year 2010 estimate to maintain and preserve DelDOT's infrastructure was $102.2 million, but the actual expenditures were $336.2 million, which is $234.0 million over the estimate. The estimated expenditures represent annual bond bill authorizations and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 36 - 48, Note 12 on pages 94 - 96 and on pages 128 – 129 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, 2010**
**Net of Depreciation**
**(Expressed in Thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 427,496 | $ 456,328 | $ 276,761 | $ 249,775 | $ 704,257 | $ 706,103 |
| Land improvements | 79,332 | 72,325 | - | - | 79,332 | 72,325 |
| Buildings | 2,215,317 | 2,034,439 | 65,749 | 65,868 | 2,281,066 | 2,100,307 |
| Easements | 256,653 | 166,715 | - | - | 256,653 | 166,715 |
| Equipment and vehicles | 37,963 | 40,069 | 124,279 | 123,470 | 162,242 | 163,539 |
| Infrastructure | - | - | 3,432,677 | 3,385,364 | 3,432,677 | 3,385,364 |
| Construction-in-progress | 399,844 | 387,938 | - | - | 399,844 | 387,938 |
| Total | $ 3,416,605 | $ 3,157,814 | $ 3,899,466 | $ 3,824,477 | $ 7,316,071 | $ 6,982,291 |

**Long-term debt** The State uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,497.4 million backed by the full faith and credit of the State. Its relatively large debt burden reflects its centralized role in financing school construction projects that are typically funded by local governments or school districts in other states. As of June 30, 2010, $516.0 million, or 34.5%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $58.1 million of property tax revenue to the State to cover related debt service during fiscal year 2010**.**

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

- A 5% test restricts new debt authorization to 5% of budgetary general fund revenue as projected by DEFAC in June for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2010, debt issuance was limited to $159.5 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent between approximately 8% and 9% of estimated general fund and Transportation Trust Fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2010, the projected cash balance exceeded debt service.

Due to the State's statutory debt limits and its fiscal management, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on the State's general obligation bonds during fiscal year 2010. In October 2009, the State issued $493.0 million fixed rate general obligation bonds including tax-exempt and taxable

Build America Bonds. In May 2010, the State issued $152.2 million of tax-exempt, fixed rate general obligation bonds. Both transactions included issuance to refund higher cost debt.

Debt issued by the Delaware Transportation Authority (the Authority) does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The Authority has revenue bonds outstanding of $1,069.9 million to support its ongoing capital transportation program and $113.5 million in Grant Anticipation Vehicle Bonds (GARVEEs), to finance a portion of the costs of completing the final design and right-of-way acquisition for a new U.S. 301.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 72 - 90 of this report.

## Other Post-Employment Benefits

The State provides post-employment health care to its employees and accounts for these benefits according to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The State's actuarially accrued liability, based on a study conducted by Cheiron of McLean, Virginia, used actual data as of July 1, 2010 and has been determined to be about $5.9 billion using a discount rate of 5.0%. The State began pre-funding the obligation in 2002 with lump sum payments and contributions based on a percentage of payroll. For fiscal year 2010, the State has contributed $10 million in abandoned property revenue in excess of $374.0 million transferring those funds in late April. The State has established an irrevocable trust and has accumulated $104.4 million in net assets at June 30, 2010, which represents a funding ratio of less than 2%. The State's fiscal year 2010 annual required contribution (ARC) was $480.0 million, of which 36% was met through cash contributions and paid benefits. Its fiscal year 2011 ARC is expected to be $488.1 million of which 37.6% is expected to be met with cash contributions and paid benefits. The State expects to manage this obligation over time with continued contributions, savings initiatives and a review of benefits.

## Economic Factors and Next Year's Budgets and Rates

DEFAC met on June 17, 2010, to prepare the final revenue and expenditure estimates upon which the fiscal year 2011 operating and capital budgets would be based. The Department of Finance estimated at that time that employment in the State had decreased by 3.3% during fiscal year 2010. In June 2010, the Department of Finance projected a modest rebound in fiscal year 2011 employment as the State, like the nation, gradually recovers from the worst recession since World War II.

The fiscal year 2011 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2011 operating budget is $3,305.3 million, 6.9% less than fiscal year 2010. The fiscal year 2011 budget included $91.0 million in supplemental appropriations (historically in the form of cash allocated to the capital budget). The fiscal year 2010 budget had no supplemental appropriations.

The primary objective of the State's Investment Policy is the safety of principal by minimizing credit risk and interest rate risk. While investment income has been less than expected the principal amount of the investment portfolio has not been compromised in the recent downturn.

## Financial Management

The State's financial management continues to be recognized by a premier credit rating from all three principal rating agencies: Aaa from Moody's Investor's Service, AAA from Fitch Ratings and AAA from Standard & Poor's. The ratings reflect Delaware's financial management practices that have become institutionalized within the State:

- expenditure budgeting of 98% of available general fund revenue
- general fund revenue forecasts that are frequent, objective and often conservative
- three-part debt affordability test that limits debt authorization to 5% of general fund revenue and debt service to 15% of tax supported revenue
- consistent satisfaction of the State's budget reserve requirement – the State's rainy day fund has never fallen below its mandated 5% of general fund revenue
- full funding of its pension plan

These ratings were reaffirmed in October 2010.

## Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904 or visit our website at http://accounting.delaware.gov.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, Townsend Building, Suite 1, 401 Federal Street, Dover, Delaware 19901.

**STATE OF DELAWARE**
**STATEMENT OF NET ASSETS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | **Governmental Activities** | **Business-type Activities** | **Total** | **Component Units** |
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ 323,353 | $ 67,088 | $ 390,441 | $ 42,089 |
| Cash and cash equivalents - restricted | - | 2,540 | 2,540 | 25,910 |
| Cash with fiscal agent | 559 | - | 559 | - |
| Investments | 437,102 | 87,592 | 524,694 | 208,482 |
| Investments - restricted | - | 235,757 | 235,757 | 920 |
| Accounts and other receivables, net | 243,827 | 64,342 | 308,169 | 49,686 |
| Loans and notes receivable, net | 14,223 | - | 14,223 | 16,888 |
| Internal balances | 6,510 | (6,510) | - | - |
| Other post-employment benefits asset | - | - | - | 2 |
| Inventories | 7,989 | 16,006 | 23,995 | 694 |
| Prepaid items | 34,554 | 282 | 34,836 | 4,808 |
| Other current assets | - | 312 | 312 | 452 |
| **Total current assets** | 1,068,117 | 467,409 | 1,535,526 | 349,931 |
| **Noncurrent assets:** | | | | |
| Investments | 1,076,848 | 10,158 | 1,087,006 | 106,986 |
| Investments - restricted | - | 50,865 | 50,865 | 18,461 |
| Accounts and other receivables, net | 37,503 | - | 37,503 | 7,432 |
| Loans and notes receivable, net | 219,365 | - | 219,365 | 927,128 |
| Capital assets: | | | | |
| Non-depreciable | 1,083,993 | 3,709,438 | 4,793,431 | 166,747 |
| Depreciable capital assets, net | 2,332,612 | 190,030 | 2,522,642 | 427,283 |
| Deferred bond issuance costs | 4,218 | - | 4,218 | 11,407 |
| Other restricted assets | - | - | - | 15,035 |
| Other noncurrent assets | - | 4,350 | 4,350 | 2,923 |
| **Total noncurrent assets** | 4,754,539 | 3,964,841 | 8,719,380 | 1,683,402 |
| **Total assets** | 5,822,656 | 4,432,250 | 10,254,906 | 2,033,333 |
| **LIABILITIES** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable | 451,647 | 49,376 | 501,023 | 9,168 |
| Accrued liabilities | 34,895 | 76,558 | 111,453 | 20,977 |
| Interest payable | 21,610 | 25,800 | 47,410 | - |
| Unearned revenues | 17,857 | 2,983 | 20,840 | 2,522 |
| Compensated absences | 13,158 | 4,336 | 17,494 | 25 |
| Claims and judgments | 32,338 | - | 32,338 | - |
| Escheat liabilities | 15,000 | - | 15,000 | - |
| Escrow deposits | - | 2,499 | 2,499 | 2 |
| Notes payable | 77 | - | 77 | 4,012 |
| Current portion of pollution remediation obligations | 5,492 | 2,022 | 7,514 | - |
| Current portion of liabilities payable from restricted assets | - | 3,242 | 3,242 | - |
| Current portion of general obligation long-term debt, net of unamortized premium | 149,724 | 663 | 150,387 | - |
| Current portion of revenue bonds, net of unamortized premium | - | 79,037 | 79,037 | 169,282 |
| Other current liabilities | 1,410 | - | 1,410 | 9,403 |
| **Total current liabilities** | 743,208 | 246,516 | 989,724 | 215,391 |
| **Noncurrent liabilities:** | | | | |
| Pension obligation | 115,569 | - | 115,569 | - |
| Other post-employment benefits payable | 906,085 | 80,785 | 986,870 | - |
| Compensated absences | 149,287 | 9,824 | 159,111 | 7,310 |
| Claims and judgments | 97,569 | 3,178 | 100,747 | - |
| Escheat liabilities | 60,000 | - | 60,000 | - |
| Escrow deposits | - | - | - | 29,323 |
| Notes payable | 135 | - | 135 | 62,993 |
| Pollution remediation obligations | 17,915 | 773 | 18,688 | - |
| Liabilities payable from restricted assets | - | 3,359 | 3,359 | - |
| General obligation long-term debt, net of unamortized premium | 1,474,081 | 788 | 1,474,869 | - |
| Revenue bonds, net of unamortized premium | | 1,140,493 | 1,140,493 | 921,911 |
| Other long-term obligations | 2,800 | - | 2,800 | 21,329 |
| **Total noncurrent liabilities** | 2,823,441 | 1,239,200 | 4,062,641 | 1,042,866 |
| **Total liabilities** | 3,566,649 | 1,485,716 | 5,052,365 | 1,258,257 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 1,796,438 | 2,803,634 | 4,600,072 | 393,831 |
| Restricted for: | | | | |
| Debt service | - | 161,999 | 161,999 | - |
| Highways and streets | - | - | - | - |
| Budgetary reserve | 186,430 | - | 186,430 | - |
| Unemployment benefits | - | (24,168) | (24,168) | - |
| Federal and state regulations | - | - | - | 245,150 |
| Bond covenants | - | - | - | 37,431 |
| Capital projects | - | - | - | 36,976 |
| Other purposes | - | - | - | 11,007 |
| Unrestricted | 273,139 | 5,069 | 278,208 | 50,681 |
| **Total net assets** | $ 2,256,007 | $ 2,946,534 | $ 5,202,541 | $ 775,076 |

**STATE OF DELAWARE**
**STATEMENT OF ACTIVITIES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| **Function** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| **Primary government:** | | | | |
| Governmental activities: | | | | |
| General government | $ 436,025 | $ 149,299 | $ 16,465 | $ - |
| Health and children's services | 2,059,215 | 121,855 | 1,052,068 | - |
| Judicial and public safety | 624,565 | 60,024 | 50,672 | - |
| Natural resources and environmental control | 148,776 | 58,925 | 41,451 | 30,861 |
| Labor | 74,163 | - | 44,617 | - |
| Education | 2,146,258 | 63,099 | 255,630 | - |
| Interest | 55,782 | - | - | - |
| Total governmental activities | 5,544,784 | 453,202 | 1,460,903 | 30,861 |
| Business-type activities: | | | | |
| Lottery | 353,449 | 689,652 | - | - |
| DelDOT | 626,012 | 426,924 | - | 238,276 |
| Unemployment | 379,065 | 119,473 | 196,889 | - |
| Total business-type activities | 1,358,526 | 1,236,049 | 196,889 | 238,276 |
| Total primary government | 6,903,310 | 1,689,251 | 1,657,792 | 269,137 |
| **Component units:** | | | | |
| Delaware State Housing Authority | 139,708 | 61,430 | 83,621 | 1,370 |
| Diamond State Port Corporation | 30,762 | 28,203 | - | 2,614 |
| Riverfront Development Corporation | 15,431 | 1,866 | 362 | 3,140 |
| Delaware State University | 106,039 | 42,192 | 28,940 | 2,293 |
| Delaware Technical & Community College Educational Foundation | 758 | 637 | 852 | - |
| Delaware Charter Schools | 95,908 | 13,462 | 9,933 | 20 |
| Total component units | 388,606 | 147,790 | 123,708 | 9,437 |

**General revenues:**
Taxes:
Personal income
Business
Real estate
Other
Unrestricted payments from primary government
Investment income (loss)
Gain (loss) on disposal of assets
Miscellaneous
**Transfers in (out)**
Total general revenues and transfers

Change in net assets

**Net assets - beginning of year**
**Net assets - end of year**

| | | | |
|---|---|---|---|
| **Net (Expenses) Revenue and Changes in Net Assets** | | | |
| **Primary Government** | | | |
| **Governmental Activities** | **Business-Type Activities** | **Total** | **Component Units** |
| $ (270,261) | | $ (270,261) | |
| (885,292) | | (885,292) | |
| (513,869) | | (513,869) | |
| (17,539) | | (17,539) | |
| (29,546) | | (29,546) | |
| (1,827,529) | | (1,827,529) | |
| (55,782) | | (55,782) | |
| (3,599,818) | | (3,599,818) | |
| | $ 336,203 | 336,203 | |
| | 39,188 | 39,188 | |
| | (62,703) | (62,703) | |
| | 312,688 | 312,688 | |
| | | | $ 6,713 |
| | | | 55 |
| | | | (10,063) |
| | | | (32,614) |
| | | | 731 |
| | | | (72,493) |
| | | | (107,671) |
| 760,617 | - | 760,617 | - |
| 1,820,023 | - | 1,820,023 | - |
| 434,718 | - | 434,718 | - |
| 250,630 | - | 250,630 | - |
| - | - | - | 105,819 |
| 20,185 | (15,336) | 4,849 | 7,998 |
| - | (415) | (415) | - |
| 15,546 | (1,000) | 14,546 | 75 |
| 335,880 | (335,880) | - | - |
| 3,637,599 | (352,631) | 3,284,968 | 113,892 |
| 37,781 | (39,943) | (2,162) | 6,221 |
| 2,218,226 | 2,986,477 | 5,204,703 | 768,855 |
| $ 2,256,007 | $ 2,946,534 | $ 5,202,541 | $ 775,076 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**COMBINED BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | General | Federal | Local School District | Capital Projects | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 314,009 | $ 666 | $ 8,678 | $ - | $ 323,353 |
| Investments | 1,196,335 | - | 317,615 | - | 1,513,950 |
| Accounts receivable, net | 69,495 | 10,305 | 577 | - | 80,377 |
| Taxes receivable, net | 71,450 | - | 29,102 | - | 100,552 |
| Intergovernmental receivables, net | 2,641 | 97,760 | - | - | 100,401 |
| Loans and notes receivable | 167,478 | 66,110 | - | - | 233,588 |
| Due from other funds | 57,866 | - | - | - | 57,866 |
| Inventories | 7,983 | - | - | 6 | 7,989 |
| **Total assets** | 1,887,257 | 174,841 | 355,972 | 6 | 2,418,076 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| **Liabilities** | | | | | |
| Accounts payable | 351,108 | 67,885 | 17,161 | 15,493 | 451,647 |
| Accrued liabilities | 34,895 | - | - | - | 34,895 |
| Claims and judgments | 1,410 | - | - | - | 1,410 |
| Escheat liability | 75,000 | - | - | - | 75,000 |
| Due to other funds | - | 30,546 | 2,665 | 18,145 | 51,356 |
| Deferred revenues | 228,477 | 124,815 | 27,779 | - | 381,071 |
| **Total liabilities** | 690,890 | 223,246 | 47,605 | 33,638 | 995,379 |
| **Fund balances (deficit)** | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 118,947 | - | 12,227 | - | 131,174 |
| Reserve for long-term portion of loans and notes receivable | 39,372 | - | - | - | 39,372 |
| Inventories | 7,983 | - | - | 6 | 7,989 |
| Budgetary reserve | 186,430 | - | - | - | 186,430 |
| Unreserved (deficit) | 843,635 | (48,405) | 296,140 | (33,638) | 1,057,732 |
| **Total fund balances** | 1,196,367 | (48,405) | 308,367 | (33,632) | 1,422,697 |
| **Total liabilities and fund balances** | $ 1,887,257 | $ 174,841 | $ 355,972 | $ 6 | $ 2,418,076 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**
**TO THE STATEMENT OF NET ASSETS**
**June 30, 2010**
(Expressed in Thousands)

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ 1,422,697 |
| 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 | $ 427,496 | |
| Land improvements | 79,332 | |
| Buildings | 2,215,317 | |
| Easements | 256,653 | |
| Equipment and vehicles | 37,963 | |
| Construction in progress | 399,844 | |
| | | 3,416,605 |
| 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. | | 363,214 |
| 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 | $ (21,610) | |
| Claims and judgments (current and long-term) | (129,907) | |
| Compensated absences (current and long-term) | (162,445) | |
| Other post employment benefits | (906,085) | |
| Pollution remediation obligations (current and long-term) | (23,407) | |
| Pension obligation | (115,569) | |
| General obligation long-term debt and related accounts | (1,584,474) | |
| Notes payable (current and long-term) | (212) | |
| Other long-term obligations | (2,800) | |
| | | (2,946,509) |
| **Net assets of governmental activities** | | $ 2,256,007 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)**
**GOVERNMENTAL FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | General | Federal | Local School District | Capital Projects | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Personal taxes | $ 743,774 | $ - | $ - | $ - | $ 743,774 |
| Business taxes | 1,820,023 | - | - | - | 1,820,023 |
| Other tax revenue | 250,630 | - | 434,718 | - | 685,348 |
| Licenses, fees, permits and fines | 390,386 | 338 | 1,664 | - | 392,388 |
| Rentals and sales | 24,511 | 1 | 14,103 | - | 38,615 |
| Federal government | 36,352 | 1,405,710 | 660 | - | 1,442,722 |
| Interest and other investment income | 15,346 | 127 | 4,712 | - | 20,185 |
| Other | 176,778 | - | 37,939 | 1,234 | 215,951 |
| **Total revenues** | 3,457,800 | 1,406,176 | 493,796 | 1,234 | 5,359,006 |
| **Expenditures** | | | | | |
| Current: | | | | | |
| General government | 458,449 | 13,066 | - | - | 471,515 |
| Health and children's services | 1,025,328 | 1,033,831 | - | - | 2,059,159 |
| Judicial and public safety | 522,505 | 56,272 | - | - | 578,777 |
| Natural resources and environmental control | 114,353 | 41,915 | - | - | 156,268 |
| Labor | 33,407 | 40,515 | - | - | 73,922 |
| Education | 1,241,254 | 280,720 | 364,379 | | 1,886,353 |
| Unrestricted payments to component unit - Education | 92,156 | - | 13,663 | - | 105,819 |
| Capital outlay | - | - | - | 241,050 | 241,050 |
| Debt service: | | | | | |
| Principal | 155,789 | - | - | - | 155,789 |
| Interest and other charges | 66,222 | - | - | - | 66,222 |
| Advance Refunding Escrow | 35,189 | - | - | - | 35,189 |
| Costs of issuance of debt | - | - | - | 3,797 | 3,797 |
| **Total expenditures** | 3,744,652 | 1,466,319 | 378,042 | 244,847 | 5,833,860 |
| **Excess (deficiency) of of revenues over expenditures** | (286,852) | (60,143) | 115,754 | (243,613) | (474,854) |
| **Other Sources (Uses) of Financial Resources** | | | | | |
| Transfers in | 914,041 | - | 56,174 | - | 970,215 |
| Transfers out | (26,422) | (21,220) | (90,924) | (495,769) | (634,335) |
| Issuance of general obligation bonds | - | - | - | 645,130 | 645,130 |
| Premiums on bond sales | - | - | - | 66,054 | 66,054 |
| Payment to Bond Refunding Agent | (460,580) | - | - | - | (460,580) |
| **Total other sources (uses) of financial resources** | 427,039 | (21,220) | (34,750) | 215,415 | 586,484 |
| **Net change in fund balances** | 140,187 | (81,363) | 81,004 | (28,198) | 111,630 |
| Fund balances - beginning | 1,056,180 | 32,958 | 227,363 | (5,434) | 1,311,067 |
| Fund balances - ending | $ 1,196,367 | $ (48,405) | $ 308,367 | $ (33,632) | $ 1,422,697 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | | |
|---|---|---|
| **Net Changes in Fund Balances** | | $ 111,630 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | | |
| Capital outlays | 329,825 | |
| Depreciation expense | (71,035) | |
| | | 258,790 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 42,813 |
| 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 | $ 155,789 | |
| Advanced refunding payments | 35,189 | |
| New debt issued (face value) | (184,550) | |
| Premium received | (66,054) | |
| Issuance costs | 3,797 | |
| Amortization of premium/issuance costs | 5,631 | |
| | | (50,198) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds: | | |
| Accrued interest expense | | 4,207 |
| Claims and judgments | | (9,547) |
| Compensated absences | | (15,850) |
| Other post employment benefits | | (297,591) |
| Pollution remediation obligation | | (6,905) |
| Pension obligation | | (2,917) |
| Notes payable | | 2,794 |
| Other liabilities | | 555 |
| **Change in Net Assets of Governmental Activities** | | $ 37,781 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | Unemployment | Lottery | DelDOT | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ 10,224 | $ 16,038 | $ 40,826 | $ 67,088 |
| Cash and cash equivalents - restricted | - | - | 2,540 | 2,540 |
| Investments | - | - | 87,592 | 87,592 |
| Investments - restricted | - | 950 | 234,807 | 235,757 |
| Accounts receivable, net | 7,493 | 6,215 | 11,287 | 24,995 |
| Taxes receivable, net | 20,837 | - | - | 20,837 |
| Intergovernmental receivables, net | 2,795 | - | 15,227 | 18,022 |
| Current portion of interest receivable | - | - | 488 | 488 |
| Inventories | - | - | 16,006 | 16,006 |
| Escrow insurance deposits | - | - | 312 | 312 |
| Prepaid items | - | - | 282 | 282 |
| **Total current assets** | 41,349 | 23,203 | 409,367 | 473,919 |
| **Noncurrent assets:** | | | | |
| Investments | - | - | 10,158 | 10,158 |
| Investments - restricted | - | 1,067 | 49,798 | 50,865 |
| Other assets | - | 2,292 | - | 2,292 |
| Prepaid pension | - | - | 2,058 | 2,058 |
| Capital assets, non-depreciable | - | - | 3,709,438 | 3,709,438 |
| Capital assets, depreciable, net | - | 2 | 190,028 | 190,030 |
| **Total noncurrent assets** | - | 3,361 | 3,961,480 | 3,964,841 |
| **Total assets** | 41,349 | 26,564 | 4,370,847 | 4,438,760 |
| **LIABILITIES** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable | - | 10,062 | 35,643 | 45,705 |
| Accrued liabilities | 61,846 | - | 10,166 | 72,012 |
| Interest payable | - | - | 25,800 | 25,800 |
| Deferred revenue | - | - | 2,983 | 2,983 |
| Compensated absences | - | - | 4,336 | 4,336 |
| Prizes liability | - | 4,546 | - | 4,546 |
| Escrow deposits | - | - | 2,499 | 2,499 |
| Pollution remediation obligations | - | - | 2,022 | 2,022 |
| Current portion of liabilities payable from restricted assets | - | - | 3,242 | 3,242 |
| Current portion of general obligation long-term debt | - | - | 663 | 663 |
| Current portion of revenue bonds, net of unamortized premium | - | - | 79,037 | 79,037 |
| Tax refunds payable | 3,671 | - | - | 3,671 |
| Due to other funds | - | 6,510 | - | 6,510 |
| **Total current liabilities** | 65,517 | 21,118 | 166,391 | 253,026 |
| **Noncurrent liabilities:** | | | | |
| Other post-employment benefits payable | - | 1,087 | 79,698 | 80,785 |
| Compensated absences | - | - | 9,824 | 9,824 |
| Claims and judgments | - | - | 3,178 | 3,178 |
| Pollution remediation obligations | - | - | 773 | 773 |
| Liabilities payable from restricted assets | - | 3,359 | - | 3,359 |
| General obligation long-term debt | - | - | 788 | 788 |
| Revenue bonds, net of unamortized premium | - | - | 1,140,493 | 1,140,493 |
| **Total noncurrent liabilities** | - | 4,446 | 1,234,754 | 1,239,200 |
| **Total liabilities** | 65,517 | 25,564 | 1,401,145 | 1,492,226 |
| **Net assets:** | | | | |
| Invested in capital assets, net of related debt | - | 2 | 2,803,632 | 2,803,634 |
| Restricted for: | | | | |
| Debt service | - | - | 161,999 | 161,999 |
| Unemployment benefits | (24,168) | - | - | (24,168) |
| Unrestricted | - | 998 | 4,071 | 5,069 |
| **Total net assets** | $ (24,168) | $ 1,000 | $ 2,969,702 | $ 2,946,534 |

**STATE OF DELAWARE**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | Unemployment | Lottery | DelDOT | Total |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Unemployment taxes-state funded | $ 92,029 | $ - | $ - | $ 92,029 |
| Unemployment taxes-federal funded | 196,889 | - | - | 196,889 |
| Gaming revenue | - | 689,652 | - | 689,652 |
| Pledged revenues: | | | | |
| Turnpike revenue | - | - | 119,399 | 119,399 |
| Motor vehicle and related revenue | - | - | 241,433 | 241,433 |
| Turnpike revenue | - | - | 45,502 | 45,502 |
| Passenger fares | - | - | 13,474 | 13,474 |
| Miscellaneous | 27,444 | - | 7,116 | 34,560 |
| Total operating revenues | 316,362 | 689,652 | 426,924 | 1,432,938 |
| **Operating expenses:** | | | | |
| Unemployment benefits-state funded | 167,660 | - | - | 167,660 |
| Unemployment benefits-federal funded | 211,405 | | | 211,405 |
| Cost of sales | - | 271,325 | - | 271,325 |
| Prizes | - | 72,537 | - | 72,537 |
| Transportation | - | - | 552,410 | 552,410 |
| Depreciation | - | 2 | 23,052 | 23,054 |
| General and administrative | - | 9,585 | 6,629 | 16,214 |
| Total operating expenses | 379,065 | 353,449 | 582,091 | 1,314,605 |
| Operating income (loss) | (62,703) | 336,203 | (155,167) | 118,333 |
| **Nonoperating revenues (expenses):** | | | | |
| Investment income | 1,978 | - | 2,983 | 4,961 |
| Interest expense | - | - | (43,921) | (43,921) |
| Loss on Note Receivable | - | - | (20,297) | (20,297) |
| Contributions to Thoroughbred Program | - | (1,000) | - | (1,000) |
| Loss on disposal of assets | - | - | (415) | (415) |
| Total nonoperating revenues (expenses) | 1,978 | (1,000) | (61,650) | (60,672) |
| Income (loss) before transfers and capital contributions | (60,725) | 335,203 | (216,817) | 57,661 |
| Capital contributions | - | - | 238,276 | 238,276 |
| Transfers in | - | - | 3,112 | 3,112 |
| Transfers out | - | (334,609) | (4,383) | (338,992) |
| Increase (decrease) in net assets | (60,725) | 594 | 20,188 | (39,943) |
| **Net assets - beginning of year** | 36,557 | 406 | 2,949,514 | 2,986,477 |
| **Net assets - end of year** | $ (24,168) | $ 1,000 | $ 2,969,702 | $ 2,946,534 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | Unemployment | Lottery | DelDOT | Total |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Receipts from employers | $ 92,760 | $ - | $ - | $ 92,760 |
| Receipts from federal government | 208,102 | - | - | 208,102 |
| Payments for insurance claims | (395,961) | - | (5,086) | (401,047) |
| Receipts from customers and users | - | 694,061 | 427,369 | 1,121,430 |
| Other operating receipts | 27,444 | - | 1,862 | 29,306 |
| Payments to suppliers for goods and services | - | (46,454) | (413,427) | (459,881) |
| Payments to employees for services | - | (1,870) | (120,497) | (122,367) |
| Payments for prizes | - | (73,967) | - | (73,967) |
| Payment for commissions | - | (226,101) | - | (226,101) |
| Net cash provided (used) by operating activities | (67,655) | 345,669 | (109,779) | 168,235 |
| **Cash flows from noncapital financing activities:** | | | | |
| Transfers in | - | - | 3,112 | 3,112 |
| Transfers out | - | (335,609) | (4,383) | (339,992) |
| Net cash used by noncapital financing activities | - | (335,609) | (1,271) | (336,880) |
| **Cash flows from capital and related financing activities:** | | | | |
| Capital grants | - | - | 248,404 | 248,404 |
| Purchases of capital assets | - | - | (99,277) | (99,277) |
| Principal paid on capital debt | - | - | (75,036) | (75,036) |
| Interest paid on capital debt | - | - | (50,972) | (50,972) |
| Proceeds from sale of land and equipment | - | - | 821 | 821 |
| Proceeds from issuance of debt | - | - | 113,490 | 113,490 |
| Premium from bond sale | - | - | 11,529 | 11,529 |
| Net cash used by capital and related financing activities | - | - | 148,959 | 148,959 |
| **Cash flows from investing activities:** | | | | |
| Interest and investment revenues | 1,978 | - | 2,700 | 4,678 |
| Repayment on loan receivable | - | - | 1,295 | 1,295 |
| Escrow deposits received | - | - | 674 | 674 |
| Purchase of investments | - | - | 3,573,708 | 3,573,708 |
| Proceeds from sales and maturities of investments | - | 1,269 | (3,622,351) | (3,621,082) |
| Net cash provided by investing activities | 1,978 | 1,269 | (43,974) | (40,727) |
| **Net increase (decrease) in cash and cash equivalents** | (65,677) | 11,329 | (6,065) | (60,413) |
| **Cash and cash equivalents - beginning of year** | 75,901 | 4,709 | 49,431 | 130,041 |
| **Cash and cash equivalents - end of year** | 10,224 | 16,038 | 43,366 | 69,628 |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities:** | | | | |
| Operating income (loss) | (62,703) | 336,203 | (155,167) | 118,333 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | - | 2 | 23,052 | 23,054 |
| Decrease (increase) in assets: | | | | |
| Receivables, net | (1,188) | 4,409 | 2,307 | 5,528 |
| Inventories | - | - | (1,196) | (1,196) |
| Prepaid items | - | - | (416) | (416) |
| Increase (decrease) in liabilities: | | | | |
| Accounts and other payables | 941 | 6,484 | (2,947) | 4,478 |
| Accrued liabilities | (15,918) | 2 | (71) | (15,987) |
| Accrued expenses | - | (1,431) | (1,590) | (3,021) |
| Accrued payroll and related expenses | - | - | (72) | (72) |
| Post-employment benefits | - | - | 26,321 | 26,321 |
| Due to/from federal government | 11,213 | - | - | 11,213 |
| Net cash provided (used) by operating activities | (67,655) | 345,669 | (109,779) | 168,235 |

**STATE OF DELAWARE**
**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | Pension Trust | OPEB Trust | Investment Trust | Agency |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and cash equivalents | $ 283,015 | $ 12,482 | $ 4,520 | $ 23,486 |
| Receivables: | | | | |
| Accrued interest | 17,929 | - | 88 | - |
| Investment sales pending | 65,365 | - | 322 | - |
| Employer contributions | 11,942 | 9,207 | - | - |
| Member contributions | 3,981 | 43 | - | - |
| Other receivables | - | - | - | 38,372 |
| Investments, at fair value: | | | | |
| Domestic fixed income | 519,224 | 42,154 | 13,132 | - |
| Domestic equities | 950,884 | 33,589 | 13,098 | - |
| Pooled equity and fixed income | 1,890,325 | - | 9,276 | - |
| Alternative investments | 1,622,262 | - | 7,961 | - |
| Short term investments | - | - | - | 22,811 |
| Foreign fixed income | 135,687 | - | 665 | - |
| Foreign equities | 899,331 | 17,463 | 8,797 | - |
| **Total assets** | 6,399,945 | 114,938 | 57,859 | 84,669 |
| **Liabilities:** | | | | |
| Accounts payable | - | - | - | 84,669 |
| Investment purchase payable | 52,900 | 10,570 | 260 | - |
| Benefits/claims payable | 1,404 | - | - | - |
| Accrued investment expense | 3,783 | 4 | 20 | - |
| Accrued administrative expenses | 304 | - | - | - |
| **Total liabilities** | 58,391 | 10,574 | 280 | 84,669 |
| **Net assets:** | | | | |
| Assets held in trust for pension benefits and pool participants | $ 6,341,554 | $ 104,364 | $ 57,579 | $ - |

**STATE OF DELAWARE**
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | Pension Trust | OPEB Trust | Investment Trust |
|---|---|---|---|
| **Additions:** | | | |
| Contributions: | | | |
| Employer contributions | $ 167,607 | $ 171,498 | $ - |
| Transfer from post-retirement increase fund | 26,457 | - | - |
| Transfer of assets from outside the system | 2,901 | - | 43 |
| Member contributions | 53,129 | 5,640 | - |
| Other | 38 | - | - |
| Total contributions | 250,132 | 177,138 | 43 |
| Investments: | | | |
| Investment earnings | 99,937 | 2,370 | 1,240 |
| Net increase in fair value of investments | 727,023 | 6,301 | 5,785 |
| Total investment earnings | 826,960 | 8,671 | 7,025 |
| Less investment manager/advisor/custody fees | (18,383) | (46) | (102) |
| Less investment administrative expenses | (563) | - | - |
| Net investment earnings | 808,014 | 8,625 | 6,923 |
| Total additions | 1,058,146 | 185,763 | 6,966 |
| **Deductions:** | | | |
| Transfer of assets from post-retirement increase fund | 26,457 | - | - |
| Transfer of assets from outside the system | 10,331 | - | 1,156 |
| Pension/claim payments | 433,277 | 164,543 | - |
| Refunds of contributions to members | 3,486 | - | - |
| Group life payments | 4,930 | - | - |
| Administrative expenses | 5,724 | 103 | - |
| Total deductions | 484,205 | 164,646 | 1,156 |
| **Change in net assets** | 573,941 | 21,117 | 5,810 |
| **Net assets - beginning of year** | 5,767,613 | 83,247 | 51,769 |
| **Net assets - end of year** | $ 6,341,554 | $ 104,364 | $ 57,579 |

*See Accompanying Notes to Financial Statements*

**STATE OF DELAWARE**
**COMBINING STATEMENT OF NET ASSETS**
**COMPONENT UNITS**
**JUNE 30, 2010**
(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 | $ 183 | $ 1,070 | $ 100 | $ 13,230 | $ 329 | $ 27,177 | $ 42,089 |
| Cash and cash equivalents - restricted | - | 14,889 | 170 | 10,705 | - | 146 | 25,910 |
| Investments | 198,468 | - | - | - | 9,951 | 63 | 208,482 |
| Investments - restricted | - | - | - | 920 | - | - | 920 |
| Accounts and other receivables, net | 32,483 | 2,175 | 211 | 14,689 | - | 128 | 49,686 |
| Loans and notes receivable, net | 15,857 | - | 1,031 | - | - | - | 16,888 |
| Other post-employment benefits (OPEB) asse | 2 | - | - | - | - | - | 2 |
| Inventories | - | 694 | - | - | - | - | 694 |
| Prepaid items | 3,390 | 566 | 50 | - | - | 38 | 4,044 |
| Deferred bond issuance costs | 764 | - | - | - | - | - | 764 |
| Other restricted assets | - | - | - | - | 95 | - | 95 |
| Other current assets | - | - | - | 337 | - | 20 | 357 |
| **Total current assets** | 251,147 | 19,394 | 1,562 | 39,881 | 10,375 | 27,572 | 349,931 |
| **Noncurrent assets:** | | | | | | | |
| Long-term investments | 106,930 | - | - | - | 56 | - | 106,986 |
| Long-term investments - restricted | - | - | - | 18,461 | - | - | 18,461 |
| Accounts and other receivables, net | 7,432 | - | - | - | - | - | 7,432 |
| Loans and notes receivable, net | 926,564 | - | 465 | 99 | - | - | 927,128 |
| Capital assets - non-depreciable | 4,567 | 36,385 | 103,619 | 16,976 | - | 5,200 | 166,747 |
| Capital assets - depreciable, net | 15,639 | 127,809 | 25,023 | 194,041 | - | 64,771 | 427,283 |
| Deferred bond issuance costs | 8,590 | - | - | 1,700 | - | 1,117 | 11,407 |
| Other restricted assets | - | - | - | 7,504 | 7,531 | - | 15,035 |
| Other noncurrent assets | - | - | 2,091 | 220 | - | 612 | 2,923 |
| **Total noncurrent assets** | 1,069,722 | 164,194 | 131,198 | 239,001 | 7,587 | 71,700 | 1,683,402 |
| **Total assets** | 1,320,869 | 183,588 | 132,760 | 278,882 | 17,962 | 99,272 | 2,033,333 |
| **LIABILITIES** | | | | | | | |
| **Current liabilities:** | | | | | | | |
| Accounts payable | 1,054 | 211 | 748 | 6,315 | 29 | 811 | 9,168 |
| Accrued liabilities | 88 | 2,835 | 69 | 10,206 | - | 7,779 | 20,977 |
| Deferred revenue | - | 11 | 66 | 2,444 | - | 1 | 2,522 |
| Compensated absences | 25 | - | - | - | - | - | 25 |
| Escrow deposits | - | - | 2 | - | - | - | 2 |
| Notes payable | 975 | 1,507 | 650 | - | - | 880 | 4,012 |
| Current portion of revenue bonds | 168,457 | - | 360 | - | - | 465 | 169,282 |
| Current portion of other long-term debt | - | - | 4,945 | 1,845 | - | 1,979 | 8,769 |
| Other current liabilities | 301 | - | - | 146 | 2 | 185 | 634 |
| **Total current liabilities** | 170,900 | 4,564 | 6,840 | 20,956 | 31 | 12,100 | 215,391 |
| **Noncurrent liabilities:** | | | | | | | |
| Compensated absences | 951 | - | - | 5,399 | - | 960 | 7,310 |
| Escrow deposits | 29,323 | - | - | - | - | - | 29,323 |
| Notes payable | 128 | 30,885 | - | - | - | 31,980 | 62,993 |
| Revenue bonds | 795,814 | - | 3,265 | 104,187 | - | 18,645 | 921,911 |
| Long-term debt | - | - | 9,090 | 785 | - | 9,098 | 18,973 |
| Other noncurrent liabilities | 953 | - | - | 950 | 66 | 387 | 2,356 |
| **Total noncurrent liabilities** | 827,169 | 30,885 | 12,355 | 111,321 | 66 | 61,070 | 1,042,866 |
| **Total liabilities** | 998,069 | 35,449 | 19,195 | 132,277 | 97 | 73,170 | 1,258,257 |
| **NET ASSETS** | | | | | | | |
| Invested in capital assets, net of related debt | 20,206 | 131,803 | 110,982 | 120,221 | - | 10,619 | 393,831 |
| Restricted for: | | | | | | | |
| Federal and state regulations | 234,448 | - | - | 425 | 10,277 | - | 245,150 |
| Bond covenants | 36,643 | - | - | 788 | - | - | 37,431 |
| Capital projects | 3,465 | 14,889 | - | 4,915 | - | 13,707 | 36,976 |
| Other purposes | - | - | - | 10,884 | - | 123 | 11,007 |
| Unrestricted | 28,038 | 1,447 | 2,583 | 9,372 | 7,588 | 1,653 | 50,681 |
| **Total net assets** | $ 322,800 | $ 148,139 | $ 113,565 | $ 146,605 | $ 17,865 | $ 26,102 | $ 775,076 |

* Fiscal year-end December 31, 2009

**STATE OF DELAWARE**
**COMBINING STATEMENT OF ACTIVITIES**
**COMPONENT UNITS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| Component units: | | | | |
| Delaware State Housing Authority | $ 139,708 | $ 61,430 | $ 83,621 | $ 1,370 |
| Diamond State Port Corporation | 30,762 | 28,203 | - | 2,614 |
| Riverfront Development Corporation | 15,431 | 1,866 | 362 | 3,140 |
| Delaware State University | 106,039 | 42,192 | 28,940 | 2,293 |
| Delaware Technical and Community College (DTCC) Educational Foundation | 758 | 637 | 852 | - |
| Delaware Charter Schools | 95,908 | 13,462 | 9,933 | 20 |
| Total component units | $ 388,606 | $ 147,790 | $ 123,708 | $ 9,437 |

**General revenues:**

Unrestricted payments from primary government
Investment income (loss)
Gain (loss) on disposal 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, 2009

| Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | DTCC * Educational Foundation | Delaware Charter Schools | Totals |
|---|---|---|---|---|---|---|
| | | | | | | |
| $ 6,713 | | | | | | $ 6,713 |
| | $ 55 | | | | | 55 |
| | | | | | | |
| | | $ (10,063) | | | | (10,063) |
| | | | $ (32,614) | | | (32,614) |
| | | | | | | |
| | | | | $ 731 | | 731 |
| | | | | | $ (72,493) | (72,493) |
| | | | | | | (107,671) |
| | | | | | | |
| - | - | - | 33,579 | - | 72,240 | 105,819 |
| 6,101 | (1,128) | 111 | 794 | 1,827 | 293 | 7,998 |
| - | - | - | - | - | - | - |
| - | 116 | - | (657) | - | 616 | 75 |
| 6,101 | (1,012) | 111 | 33,716 | 1,827 | 73,149 | 113,892 |
| 12,814 | (957) | (9,952) | 1,102 | 2,558 | 656 | 6,221 |
| 309,986 | 149,096 | 123,517 | 145,503 | 15,307 | 25,446 | 768,855 |
| $ 322,800 | $ 148,139 | $ 113,565 | $ 146,605 | $ 17,865 | $ 26,102 | $ 775,076 |

*See Accompanying Notes to Financial Statements*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that comprise the State's legal entity. The State's 19 local school districts are fiscally dependent and not legally separate from the State. As per the interpretation of Article X, Section 2 of the State's Constitution, the local school districts are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. Fiduciary funds, although legally separate entities, are in substance part of the State's operations. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that such are legally separate from the State.

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

#### Blended Component Units

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2010 may be obtained in writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware OPEB Fund Trust (OPEB Trust) is a trust, which provides retirement medical coverage to pensioners and their eligible dependents in the State's Employees', Judiciary, New State Police, and Closed State Police Pension Plans. The OPEB Trust is a legally separate entity; however, it provides services and benefits almost exclusively to the primary government. The OPEB Trust is considered a blended component unit and is shown in the financial statements as part of the primary government as an OPEB trust fund.

**Discretely Presented Component Units**

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2009, each discretely presented component unit has a June 30, 2010 fiscal year-end.

**Delaware State Housing Authority**

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The DSHA's relationship with the State is such that exclusion of the DSHA from the State's basic financial statements would cause the statements to be misleading or incomplete. The DSHA is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors; (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans; (3) purchase qualified mortgage loans from mortgage lenders; and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

**Diamond State Port Corporation**

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints 8 of the 15 members of the board of directors, with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

**Riverfront Development Corporation**

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints seven of the 18 board members; however, seven of the remaining 11 directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

**Delaware State University**

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, eight appointed by the Governor of Delaware and seven elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Housing Foundation and the Delaware State University Foundation, Inc.

**Delaware Technical and Community College Educational Foundation**

The Delaware Technical and Community College Educational Foundation (the Foundation) is a fiduciary-type component unit of Delaware Technical and Community College (DTCC), which is part of the primary government. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the Foundation be limited to such educational purposes that come under Section 501(c) (3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2009.

**Delaware Charter Schools**

The State's 21 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices.

**Related Organizations**

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

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

**Jointly Governed Organization**

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

**Government-Wide and Fund Financial Statements**

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

The statement of net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. There are no net assets that are restricted by enabling legislation at June 30, 2010. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not present results of operations and, therefore, do not have a measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

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

**Governmental Funds**

The State reports the following major governmental funds:

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

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

*Local School District Fund* – The local school district fund is used to account for aggregate financial activity of the State's local school districts that is funded by locally-raised real estate taxes, interest, and minor miscellaneous revenue. The aggregate financial activity is funded from other sources, such as federal grant programs, major and minor capital project programs, and subsidized government programs are accounted for in the general fund, federal fund, and capital project fund.

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

**Proprietary Funds**

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

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

The Lottery fund recognizes revenue from online games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid, 90 days from the date of activation, or when the next pack of the same game is activated. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

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

The State reports the following major proprietary funds:

*DelDOT Fund* – The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Trust (Authority).

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

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

**Fiduciary Funds**

The fiduciary funds account for assets held by the State in a trustee capacity or as an agency for other individuals or organizations. The fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The State reports the following fiduciary funds:

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

*Pension Trust Funds* – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits (Note 15). For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The financial report of DPERS for the year ended June 30, 2010, may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

*Investment Trust Funds* – Investment trust funds are used to account for external investment pools where a government commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the DPERS's external investment pool and for the Delaware Other Post Employment Benefit Trust Fund (OPEB) Investment Trust fund.

*OPEB Trust Fund* – The OPEB Trust is a trust administered by DPERS. In addition to providing pension benefits, the State is statutorily required to provide health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the State and the retired employee. The State recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the year paid.

**New Accounting Pronouncements**

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* - an amendment to GASB Statements No. 34 and 42. This Statement establishes a specific authoritative accounting and financial reporting requirements for intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. Requirements of this Statement were implemented by the State for the fiscal year ended June 30, 2010. As a result of statement implementation, easements increased by $75.2 million and computer software in progress increased by $22.6 million.

In June 2009, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* - an amendment to GASB TB2003-1 and GASB Statements No. 7, 23, 25, 31, 40, and 43. This Statement establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the financial statements. The primary government held no such investments on June 30, 2010. The DPERS derivative instruments have historically been, and continue to be, recognized in the financial statements at fair value. The fair value of the derivative instruments held by DPERS is immaterial, and as such the disclosure provisions of the statement were not applied. There was no material impact of the implementation of GASB 53 on the financial statements as of and for the year ended June 30, 2010.

**Impact of Future Accounting Pronouncements**

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Statement requires governments to disclose information in the notes about the processes through which constraints are imposed, as well as accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to be spent. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. Requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The State is currently evaluating the future impact of this Statement.

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

**Deposits and Investments**

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

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

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, *Deposits with Financial Institutions*, *Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

**Receivables and Payables**

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

**Inventories and Prepaid Items**

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

**Restricted Assets**

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

The State has the following restricted assets:

- The Delaware State Lottery has a mandatory deposit with the Multi-State Lottery and annuities for future installment prize payments.
- The Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.

The component units have the following restricted assets:

- Riverfront Development Corporation has restricted assets to cover revenue bond payments and capital projects.
- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for capital project outlays, grants, and college endowment funds.
- Charter schools have restricted assets to cover debt service payments.

**Capital Assets**

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

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

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1.0 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

| **Asset** | **Primary Government Years** | **Component Unit Years** |
|---|---|---|
| Buildings and Building Improvements | 10 - 40 | 15 - 75 |
| Land Improvements | 20 | N/A |
| Furniture and Equipment | 3 - 12 | 3 - 40 |
| Vehicles | 7 | N/A |
| Software | 5 | N/A |

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

**Compensated Absences**

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

**Long-Term Obligations**

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

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

**Fund Equity**

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

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the Budgetary Reserve Account). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $186.4 million at June 30, 2010. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the budgetary reserve account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

**(d) Grants**

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

**(e) Litigation Revenue**

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. The State's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $13.4 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $28.0 million are recorded in the general fund as part of other revenue and as miscellaneous general revenue on the government-wide statement of activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

## NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

### Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's Cash Management Policy Board (the Board).

The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in DPERS and the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits but also encourages diversifying investments across various asset classes.

The objectives and guidelines, as outlined in the Policy, apply to all cash and special purpose funds for which the State is financially accountable. These funds are categorized as outlined below:

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

    - Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.
    - Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts are managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State manages its short-term investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.
    - Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board directs the funding of a third part. This account is managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State manages its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

- Special Purpose Accounts. There are two primary types of special purpose accounts:

    - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
    - Authority Accounts: The State's Authorities (state agencies, local school districts and component units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Policy specifies the types of investments the investment managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The following investments are permissible for all funds under the review of the Board, subject to percentage limitations of the account.

- U.S. government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptances

- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities
- Municipal obligations

Additional permissible investments for special purpose accounts only:

- Guaranteed investment contracts
- Asset-backed securities and trust certificates

The primary government's accounts are categorized as "authority accounts". At June 30, 2010, investments of the primary government are primarily in commercial paper, corporate obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy.

The State's Cash Management Policy Board *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available on the Internet at http://treasurer.delaware.gov/information/cash_investment.shtml.

**Risks**

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS, which are described on pages 59 - 64.

***Custodial Credit Risk***

*Deposits*

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

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

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

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

At June 30, 2010, the carrying amount of the primary government’s deposits was $393.2 million and the bank balance was $526.3 million. Of the $526.3 million bank balance, $95.1 million was fully insured; $10.2 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $421.0 million was subject to custodial credit risk because they were uninsured and uncollateralized. Included in the primary government’s deposits are agency funds. The carrying amount of the agency fund’s deposits was $23.5 million and the bank balance was $28.2 million. Of the $28.2 million bank balance, $23.9 million was fully insured and the remaining $4.0 million was subject to custodial credit risk because the deposits were not covered by depository insurance or the deposits were uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the government’s name. State law permits the Treasurer to deposit in a financial institution in the State in which the Treasurer has custody if the deposit is interest bearing; the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance, and a custodian holds the collateral.

*Investments*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust department or agent but not in the government’s name.

At June 30, 2010, the primary government’s investments were $1,921.1 million. Of the primary government’s investments, $395.4 million was fully insured and collateralized. Included in the primary government’s investments of $1,921.1 million are agency funds. The amount of the agency funds’ investments was $22.8 million.

The following table provides information on $1,525.7 million of the primary government's investments that are exposed to custodial credit risk; $0.8 million of this amount represents the agency funds' investments:

| Investment Type | Fair Value (Expressed in Thousands) | |
|---|---|---|
| Corporate obligations | $ | 401,810 |
| Municipal obligations | | 48,066 |
| U.S. government obligations | | 827,492 |
| Other obligations | | 112,036 |
| Commercial paper | | 67,120 |
| Certificates of deposit | | 69,201 |
| Total | $ | 1,525,725 |

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents the fair value and effective duration of the primary government and agency fund investments by investment type at June 30, 2010:

| Investment Type | Fair Value (Expressed in Thousands) | | Effective Duration (in years) |
|---|---|---|---|
| Corporate obligations | $ | 402,215 | 1.37 |
| Municipal obligations | | 48,066 | 2.09 |
| U.S. government obligations | | 1,030,087 | 1.03 |
| Other obligations | | 123,216 | 2.48 |
| Commercial paper | | 247,732 | 0.12 |
| Certificates of deposit | | 69,816 | 0.47 |
| | $ | 1,921,132 | |

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

- Cash Account Investment. The maximum maturity for any investment at the time of purchase for the cash account is one year.
- Liquidity Accounts. The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.
- Reserve Cash (Intermediate) Account. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.
- Endowment Accounts. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.
- Authority Operating, Bond and Debt Service Reserve Fund Accounts. Maturity Restrictions: The maximum maturity for any investment at the time of purchase is 10 years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

As of June 30, 2010, the primary government and agency funds had the following debt investments and maturities:

**Investment Maturity**
(Expressed in Thousands)

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| | **Fair Value** | **Less Than 1** | **1 to 5** | **6 to 10** | **More than 10** |
| **Long Term Investments** | | | | | |
| Corporate obligations | | | | | |
| Corporate bonds | $ 359,719 | $ 177,183 | $ 180,825 | $ 1,427 | $ 284 |
| Asset-backed securities | 42,496 | 58 | 42,438 | - | - |
| Municipal obligations | 48,066 | 20,615 | 19,980 | 4,767 | 2,704 |
| U.S. government obligations | | | | | |
| U.S. Treasury bonds, notes | 252,186 | 144,928 | 99,401 | 7,857 | - |
| U.S. Agency bonds, notes | 476,496 | 152,762 | 306,126 | - | 17,608 |
| Other obligations | | | | | |
| Private placements | 109,623 | 15,123 | 94,500 | - | - |
| Pooled investments | 13,593 | 13,593 | - | - | - |
| **Short Term Investments** | | | | | |
| Commercial paper | 247,732 | 247,732 | - | - | - |
| Certificate of deposit | 69,816 | 65,414 | 4,402 | - | - |
| U.S. government obligations | | | | | |
| U.S. Treasury bonds, notes | 88,828 | 88,828 | - | - | - |
| U.S. Agency bonds, notes | 212,577 | 212,577 | - | - | - |
| **Total Investments** | **$ 1,921,132** | **$ 1,138,813** | **$ 747,672** | **$ 14,051** | **$ 20,596** |

### *Credit Risk*

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Policy requires that the State's investments in asset-backed securities be rated AAA by a major rating agency. Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S & P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

| Investment | S & P | Moody's | Fitch |
|---|---|---|---|
| Commercial paper | A-1 | P-1 | F1 |
| Senior long-term debt | A | A | A |
| Corporate bonds | AA | Aa | AA |

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

The following table presents the State's investments which were rated by S & P as of June 30, 2010. The ratings are presented using S & P's rating scale:

**Credit Risk - Quality Ratings**
(Expressed in Thousands)

| Investment Type | TSY | AGY | AAA | AA | A | A-1 | NR |
|---|---|---|---|---|---|---|---|
| **Long Term Investments** | | | | | | | |
| Corporate obligations | | | | | | | |
| Corporate bonds | $ - | $ - | $ 69,235 | $ 227,481 | $ 37,274 | - | $ 25,729 |
| Asset-backed securities | - | - | 35,394 | - | - | - | 7,102 |
| Municipal obligations | - | - | 23,950 | 11,131 | 334 | - | 12,651 |
| U.S. government obligations | | | | | | | |
| U.S. Treasury bonds, notes | 252,186 | - | - | - | - | - | - |
| U.S. Agency bonds, notes | - | 417,249 | 3,655 | 31,222 | - | - | 24,370 |
| Other obligations | | | | | | | |
| Canadian | - | - | - | - | - | - | - |
| Private placements | - | - | 72,607 | 27,576 | 6,885 | - | 2,555 |
| Miscellaneous Bonds | - | - | - | - | - | - | - |
| Pooled investments | - | - | - | - | - | - | 13,593 |
| **Short Term Investments** | | | | | | | |
| Commercial paper | - | - | - | 3,999 | - | 196,841 | 46,891 |
| Certificate of deposit | - | - | - | 18,430 | 17,317 | - | 34,070 |
| U.S. government obligations | | | | | | | |
| U.S. Treasury bonds, notes | 88,828 | - | - | - | - | - | - |
| U.S. Agency bonds, notes | - | 212,577 | - | - | - | - | - |
| **Total Investments** | **$ 341,014** | **$ 629,826** | **$ 204,841** | **$ 319,839** | **$ 61,810** | **$ 196,841** | **$ 166,961** |

TSY = Treasury

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

NR = Non-Rated Pooled accounts

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

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

A. U.S. Government - no restrictions.

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

C. Certificates of deposits, time deposits and bankers acceptances - 50% total; 5% in any one issuer.

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

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

   1. Domestic - No additional restrictions.
   2. Non-Domestic - 25%; 5% in any one issuer.

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

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

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

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

J. Mortgage-backed and asset-backed securities – 10% total (when combined with asset-backed securities and trust certificates if applicable).

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

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

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

At June 30, 2010, the State's investments have met the requirement of all the State's laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government's investments, except for U.S. government securities, pooled and mutual funds.

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit.

The Policy only permit investments denominated in U.S. dollars; therefore, the State's investments are not exposed to foreign currency risk.

**Commitments**

At June 30, 2010, the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

**Securities Lending**

The Office of the State Treasurer, with the approval of the Cash Management Policy Board (the Board) entered into a contract with its custodian during Fiscal Year 2006 to participate in its securities lending program. In February 2009, the Board voted to withdraw from the securities lending program, primarily because of concern for current market conditions and counterparty risk. On December 4, 2009, the last loaned security was returned to the custody accounts, and no program collateral was held. The Board has no intention to return to the program.

**OPEB Fund Trust (OPEB Trust)**

**Investment Policy**

The State Board of Pension Trustees is responsible for the management and investment of the funds in the OPEB Trust. The Board authorized its Investment Committee to select the investment managers of the OPEB trust following the established investment guidelines for the

DPERS until a separate investment policy is adopted for the OPEB Trust. DPERS follows the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the DPERS's policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments.

**Delaware Public Employees' Retirement System (DPERS)**

**Investment Policy**

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

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

For the fiscal year ended June 30, 2010, management of the DPERS has operated in accordance with these policies, in all material respects.

**Securities Lending**

DPERS entered into a contract with its custodian to allow participation in its securities lending program. The objective of securities lending is to earn income and through a conservatively-operated and well-controlled program. DPERS elected not to participate in the program during fiscal years 2010 and 2009, but may elect to participate at some time in the future.

**Investments**

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk as of June 30, 2010. It is the DPERS' policy to classify corporate convertible bonds as equity securities because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $578.8 million have been included in the chart below because they have maturity dates and are exposed to interest rate risk.

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

| Investment Type/Sector | Fair Value | Less than 1 | 1 - 6 | 6 - 10 | 10 + |
|---|---|---|---|---|---|
| Asset backed securities | $ 1,281 | $ - | $ - | $ 55 | $ 1,226 |
| Bank loans | - | - | - | - | - |
| Cash equivalents | 190,892 | 190,892 | - | - | - |
| Commercial mortgage-backed | 1,712 | - | - | - | 1,712 |
| Corporate bonds | 571,058 | 8,698 | 220,996 | 180,516 | 160,848 |
| Corporate convertible bonds | 578,789 | 12,288 | 407,338 | 61,138 | 98,025 |
| Government agencies | 22,691 | - | 4,098 | 18,593 | - |
| Government bonds | 47,039 | - | 27,016 | 8,593 | 11,430 |
| Municipal/provincial bonds | 14,319 | 8,663 | - | 1,431 | 4,225 |
| Non-government backed C.M.O.s | - | - | - | - | - |
| Pooled investments | 978,158 | - | - | 972,976 | 5,182 |
| Total | $ 2,405,939 | $ 220,541 | $ 659,448 | $ 1,243,302 | $ 282,648 |

## Interest Rate Risk

The State has delegated an investment policy for DPERS to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the DPERS exposure to fluctuating interest rates. Interest rate risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the Statement of Investment Policies and Objectives which is published on the DPERS website.

## Credit Risk

The DPERS general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The DPERS has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2010, the DPERS fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

| Moody's Ratings or Comparable | Percent of Total Fund | Market Value |
|---|---|---|
| AAA to A | 21.0% | $ 1,336,605 |
| BBB to B | 9.4% | 596,068 |
| CCC to C | 1.9% | 121,384 |
| Less than C | 0.0% | 2,993 |
| Not Rated | 5.5% | 348,889 |
| Total: | 37.8% | $ 2,405,939 |

*Assets held in pooled investments – specific investment

**Custodial Credit Risk**

Of the DPERS $284.4 million bank balance, there are two accounts which are uninsured and uncollateralized. Pooled deposits of $0.6 million are held by the State Treasurer's Office. The balance of $280.5 million represents deposits in short-term investments held by The Northern Trust Co., the custodial bank, as of June 30, 2010.

**Investment Concentration Risk**

As of June 30, 2010, DPERS held no concentration of investments in an individual issuer in excess of 5% of the fair value of the System's net assets.

**Management Fees**

DPERS paid $18.5 million in management fees to the venture capital limited partnerships and transition managers for the fiscal year ended June 30, 2010. These fees are netted against investment income. Management fees charged at the underlying fund level for the investments held by the First State Independence Fund I, LLC ranged from 1% to 2% of net assets, plus a performance fee of 20% on positive investment earnings, which were netted against earnings.

**Investment Commitments**

DPERS has commitments to invest up to an additional $669.3 million in venture capital limited partnerships in varying amounts as of June 30, 2010, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

**Foreign Investments**

Foreign investments include equity securities, bonds, cash, and cash equivalents. The following is a listing of the DPERS foreign assets as of June 30, 2010. The listing includes $6.5 million of investments of domestic issuers which have been classified as domestic, but are denominated in a foreign currency.

**Investment Types**
(Expressed in Thousands)

| Currency | Fair Value in U.S. Dollars | Equities | Fixed Income | Cash and Cash Equivalents |
|---|---|---|---|---|
| Australian dollar | $ 39,086 | $ 29,251 | $ 9,694 | $ 141 |
| Brazilian real | 22,321 | 13,781 | 8,540 | - |
| British pound sterling | 64,105 | 62,451 | 1,545 | 109 |
| Canadian dollar | 67,624 | 23,390 | 43,986 | 248 |
| Danish krone | 10,092 | 10,092 | - | - |
| Euro | 156,297 | 152,110 | 1,827 | 2,360 |
| Hong Kong dollar | 39,916 | 39,647 | - | 269 |
| Indonesian rupiah | 10,830 | 3,341 | 7,466 | 23 |
| Japanese yen | 49,893 | 49,829 | - | 64 |
| Mexican peso | 10,339 | 1,687 | 8,652 | - |
| New Zealand dollar | 13,706 | - | 13,706 | - |
| Norwegian krone | 13,780 | 8,222 | 5,558 | - |
| Singapore dollar | 16,771 | 13,042 | 3,729 | - |
| South Korean won | 1,647 | 1,647 | - | - |
| Swedish krona | 6,998 | 6,998 | - | - |
| Swiss franc | 17,948 | 17,948 | - | - |
| Thai baht | 30,989 | 30,940 | - | 49 |
| United Arab Emirates dirham | 932 | 932 | - | - |
| Total foreign currencies | $ 573,274 | $ 465,308 | $ 104,703 | $ 3,263 |
| Foreign issued investments denominated in U.S. dollars | 476,593 | 438,425 | 38,168 | - |
| Pooled international investments denominated in U.S. dollars | 243,746 | 243,746 | - | - |
| **Total** | $ 1,293,613 | $ 1,147,479 | $ 142,871 | $ 3,263 |

## Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. This policy, as amended, was incorporated in the formalized investment policy adopted by the Board during fiscal year 2007 and reviewed during fiscal year 2008. Some selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for DPERS, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

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

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

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

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

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

**Risk and Uncertainty**

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

The actuarial accrued plan liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years. While these assumptions have been chosen after review of past history of the covered participants, it is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

**COMPONENT UNITS**

***Diamond State Port Corporation (DSPC)***

At June 30, 2010, the carrying value and the bank balances of the DSPC's deposits were $16.0 million and $16.3 million, respectively. Of the bank balances, $250,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and $16.0 million is subject to custodial credit risk because the deposits are uninsured and uncollateralized. However, the deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

***Riverfront Development Corporation (RDC)***

At June 30, 2010, the carrying value and bank balances of the RDC's deposits were $270,812 and $247,328, respectively and of which $4,642 were held in the State Investment Pool. Deposits include $170,465 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, $105,856 is insured by the FDIC and $9,008 is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

***Delaware State University (DSU)***

At June 30, 2010, the carrying value and bank balance of DSU's deposits were $15.3 million and $22.2 million, respectively. Of the bank balances, $1.0 million is insured by the FDIC and $21.2 million is subject to custodial credit because it is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization. An additional $3.5 million of cash and cash equivalents related to unexpended State appropriations are held at the State Treasurer's office. The credit risk for these deposits depends on the investment decisions made by the State Treasurer's office.

Investments of DSU totaled $27.3 million stated at quoted market value, which consist of pooled investments. The investments are owned by DSU and are subject to categorization.

***Delaware Technical and Community College Educational Foundation (DTCC Foundation)***

At December 31, 2009, the DTCC Foundation's carrying value and bank balance was $329,287 and $329,287, respectively. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the FDIC up to $250,000. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Investments of the DTCC Foundation totaled $9.9 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $56,091 is invested in life insurance, recorded at the cash surrender value.

***Delaware Charter Schools***

At June 30, 2010, the Delaware Charter Schools deposits carrying value was $27.3 million. Deposits include $25.9 million held in the State Investment Pool. Carrying value of the remainder of deposits was $1.5 million. Bank balances totaled $1.5 million, consisting of $730,009 insured by FDIC and $739,769 uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

***Delaware State Housing Authority (DSHA)***

**Investment Policies**

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

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

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

Certain federal funds administered by DSHA are subject to additional limitations within the qualified investments listed above.

For the State of Delaware Investment Pool, fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

## Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The table below lists investments and their maturities:

**Investment Maturities (in Years)**
(Expressed in Thousands)

| Investment Type | Fair Value | Less than 1 | 1 - 5 | 5 - 10 | 10 - 20 | 20 - 30 | More than 30 |
|---|---|---|---|---|---|---|---|
| U.S. treasury notes | $ 6,519 | $ 2,243 | $ 4,034 | $ - | $ 334 | $ - | $ - |
| U.S. treasury bonds | 25 | - | - | - | 19 | - | - |
| U.S. treasury bills | - | - | - | - | - | - | - |
| U.S. treasury strips | 2,797 | 1,232 | 1,520 | - | 133 | - | - |
| U.S. agencies | 17,807 | 3,645 | 13,060 | - | - | 851 | - |
| Certificates of deposit | 771 | 732 | 39 | - | - | - | - |
| Commercial paper | 104 | 104 | - | - | - | - | - |
| Corporate notes | 2,498 | 1,619 | 817 | - | - | - | - |
| Investment | - | - | - | - | - | - | - |
| agreements | 211,159 | 153,718 | 3,587 | 8,398 | 1,209 | 13,244 | 31,002 |
| Money market savings accounts | 1,997 | 1,997 | - | - | - | - | - |
| Bank money market accounts | 39,135 | 39,135 | - | - | - | - | - |
| State of Delaware investment pool | 22,586 | 22,586 | - | - | - | - | - |
| Total Investments: | $ 305,398 | $ 227,011 | $ 23,057 | $ 8,398 | $ 1,695 | $ 14,095 | $ 31,002 |

## Interest Rate Risk

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

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

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

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

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

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

**Credit Risk**

DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. DSHA's investment policy limits its investment choices as mentioned above under Investments. For DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2010, DSHA's investments were rated as follows:

**Ratings (S & P)**
**(Expressed in Thousands)**

| Investment Type | AAA | AA+ | AA- | A+ | A | BBB+ | NR |
|---|---|---|---|---|---|---|---|
| U.S. Agencies | $ 17,807 | $ - | $ - | $ - | $ - | $ - | $ - |
| Corporate Notes | - | 446 | 251 | 922 | 879 | - | - |
| Commercial Paper | - | - | - | - | - | - | 104 |
| Total | $ 17,807 | $ 446 | $ 251 | $ 922 | $ 879 | $ - | $ 104 |

**Custodial Credit Risk**

For deposits, custodial credit risk is the risk that in the event of failure, the Authority's deposits may not be returned. All of the Authority's despots are insured by the FDIC. As of June 30, 2010, the carrying value and bank balances of the Authority's deposits were $0.2 million and $1.5 million respectively.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of DSHA's $305.4 million investment balance, $211.2 million represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified for DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

## NOTE 3 RECEIVABLES

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

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available at June 30, 2010. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

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

**Receivables - Primary Government**
**Governmental Activities**
(Expressed in Thousands)

| | General Fund | Federal Funds | Local School District Funds | Total Receivables |
|---|---|---|---|---|
| Receivables: | | | | |
| Taxes | $ 232,713 | $ - | $ 29,192 | $ 261,905 |
| Interest | 2 | - | - | 2 |
| Accounts | 949,752 | 122,507 | 747 | 1,073,006 |
| Loans and notes | 170,931 | 66,110 | - | 237,041 |
| Intergovernmental | 2,641 | 97,760 | - | 100,401 |
| Total receivables | 1,356,039 | 286,377 | 29,939 | 1,672,355 |
| Allowance for doubtful accounts | (1,044,975) | (112,202) | (260) | (1,157,437) |
| Total receivables, net | $ 311,064 | $ 174,175 | $ 29,679 | $ 514,918 |
| Amounts not scheduled for collection during the subsequent year | $ 173,070 | $ 64,464 | $ 19,334 | $ 256,868 |

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

| | Unemployment | Lottery | DelDOT | Total Receivables |
|---|---|---|---|---|
| Receivables: | | | | |
| Taxes | $ 38,249 | $ - | $ - | $ 38,249 |
| Interest | - | - | 488 | 488 |
| Accounts | 13,230 | 6,940 | 11,287 | 31,457 |
| Loans and notes | - | - | - | - |
| Intergovernmental | 669 | - | 15,227 | 15,896 |
| Total receivables | 52,148 | 6,940 | 27,002 | 86,090 |
| Allowance for doubtful accounts | (26,608) | (725) | - | (27,333) |
| Total receivables, net | $ 25,540 | $ 6,215 | $ 27,002 | $ 58,757 |
| Amounts not scheduled for collection during the subsequent year | $ - | $ - | $ - | $ - |

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

**Receivables**
**Component Unit Activities**
(Expressed in Thousands)

| | Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | Delaware Charter Schools | Total Receivables |
|---|---|---|---|---|---|---|
| Receivables: | | | | | | |
| Interest | $ 38,034 | $ - | $ 75 | $ - | $ - | $ 38,109 |
| Accounts | 1,708 | 2,226 | 136 | 13,097 | 128 | 17,295 |
| Loans and Notes | 943,186 | - | 1,496 | 99 | - | 944,781 |
| Intergovernmental | 304 | - | - | 6,764 | - | 7,068 |
| Total receivables | 983,232 | 2,226 | 1,707 | 19,960 | 128 | 1,007,253 |
| Less: Allowance for doubtful accounts | (896) | (51) | - | (5,172) | - | (6,119) |
| Total receivables, net | $ 982,336 | $ 2,175 | $ 1,707 | $ 14,788 | $ 128 | $ 1,001,134 |
| Amounts not scheduled for collection during the subsequent year | $ 933,996 | $ - | $ 465 | $ 99 | $ - | $ 934,560 |

### *Deferred Revenues*

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

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

**Deferred Revenues**
(Expressed in Thousands)

| | | |
|---|---|---|
| **Unavailable** | | |
| Taxes receivable: | $ | 73,194 |
| Non-tax receivables: | | |
| Intergovernmental Receivables | | 33,979 |
| Loans and notes receivables | | 192,520 |
| Accounts receivables | | 63,521 |
| **Subtotal unavailable** | | 363,214 |
| **Unearned** | | |
| Advance park reservation fees | | 936 |
| Federal grant advance drawdowns | | 16,921 |
| **Subtotal unearned** | | 17,857 |
| **Total deferred revenue** | $ | 381,071 |

## NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

### (a) Due From/Due to Other Funds

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables. The composition of due from/due to balances at June 30, 2010, expressed in thousands, is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Capital Projects | $ 18,145 |
| | Federal | $ 30,546 |
| | Local school district | 2,665 |
| | Subtotal | 51,356 |
| General | Enterprise Fund<br>Lottery | 6,510 |
| | Total | $ 57,866 |

The amounts due from the federal fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the federal fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. Amounts due from local school districts represent balances due from the Christina School District which were borrowed for general operating expenses and capital projects.

The amount due from the Lottery fund (reported as an internal balance on the statement of net assets), represents profits required by law to be transferred to the general fund.

**(b) Transfers In From/Out To Other Funds**

Transfers in and transfers out from/to other funds in the statement of revenues, expenditures and changes in fund balance, the statement of revenues, expenses and changes in fund net assets, proprietary funds and payment from the primary government in the statement of activities-component units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Lottery fund as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2010 is presented below (expressed in thousands):

| | Transfers In | Transfers Out |
|---|---|---|
| **Governmental funds** | | |
| General | $ 914,041 | $ 26,422 |
| Federal | - | 21,220 |
| Local school district | 56,174 | 90,924 |
| Capital Projects Fund | - | 495,769 |
| **Proprietary funds** | | |
| Lottery | - | 334,609 |
| DelDOT | 3,112 | 4,383 |
| **Total of all funds** | $ 973,327 | $ 973,327 |

## NOTE 5 GENERAL OBLIGATION BONDS

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

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the general fund. Accordingly, the State has generally issued 10- and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at redemption prices not to exceed 100% of par value.

On October 22, 2009, the State issued $493.0 million of general obligation bonds consisting of $313.7 million of Series 2009C and $179.3 million of Series 2009D. Of the $313.7 million bonds issued as Series 2009C, $283.0 million in principal was issued to refund higher priced bonds resulting in a net present value savings of $15.3 million, or 5% of the principal refunded. The Series 2009C bonds were sold to retail and institutional investors and bore coupons between 2% and 5%. The Series 2009D bonds were designated as taxable “Build American Bonds” for purposes of the American Recovery and Reinvestment Act of 2009. The State has elected to receive a cash subsidy from the U.S. Treasury of 35% of the interest payable on the Series 2009D bonds. Series 2009D coupons range from 3.7% to 5.3%. The investments and fixed earnings on the investments are sufficient to fully provide for all further debt service on the refunded bonds. The refunding for Series 2009 C resulted in an economic gain of $16.1 million and a debt service cash savings over the next nineteen years of $15.3 million.

The refunding for Series 2010 resulted in an economic gain of $10.3 million and a debt service cash savings over the next eleven years of $9.2 million.

On May 11, 2010, the State issued $152.2 million in general obligation bonds, which were used to refund $160.5 million of the State’s existing tax-exempt debt for savings. The bonds mature between January 1, 2011 and July 1, 2020 and bear coupons between 1.5% and 5%. The transaction reduced debt service by $10.3 million.

Bonds issued and outstanding totaled $1,497.4 million at June 30, 2010. Of this amount, $516.0 million is supported by property taxes collected by the local school districts. During fiscal year 2010, the local school district funds transferred $58.1 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $225.6 million of general obligation bonds at June 30, 2010. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

**General Obligation Bonds**
(Expressed in Thousands)

| Sale # | Description | Interest Rates | Maturity Date (Fiscal Year) | Balance Outstanding at June 30, 2010 |
|---|---|---|---|---|
| 210 | GO 2010A2 | 2.000%-3.000% | 2018 | $ 26,250 |
| 209 | GO 2010A1 | 1.500%-5.000% | 2024 | 125,900 |
| 208 | GO 2009D | 3.700%-5.300% | 2029 | 179,315 |
| 207 | GO 2009C2 | 2.000%-3.000% | 2024 | 44,685 |
| 206 | GO 2009C1 | 3.000%-5.000% | 2027 | 268,980 |
| 205 | GO 2009B | 4.750%-5.000% | 2026 | 102,100 |
| 204 | GO 2009A2 | 4.750%-5.000% | 2017 | 5,275 |
| 203 | GO 2009A1 | 4.750%-5.000% | 2029 | 86,725 |
| 202 | GO 2008B | 4.750%-5.000% | 2016 | 80,855 |
| 201 | GO 2008A | 3.000%-5.000% | 2016 | 6,685 |
| 200 | GO 2007A | 4.000%-5.000% | 2027 | 122,875 |
| 199 | GO 2006C | 0% | 2022 | 1,433 |
| 198 | GO 2006B | 4.000%-5.500% | 2026 | 99,635 |
| 197 | GO 2006A | 3.75%-4.500% | 2026 | 17,490 |
| 196 | GO 2005D | 3.50%-5.0% | 2025 | 89,000 |
| 195 | GO 2005C | 5% | 2023 | 45,335 |
| 194 | GO 2005B | 2.625%-5.0% | 2024 | 38,125 |
| 193 | GO 2005A | 2.25%-4.25% | 2025 | 19,820 |
| 192 | QZAB 2004B | 0% | 2020 | 224 |
| 191 | GO 2004A | 3.0%-6.0% | 2024 | 90,405 |
| 190 | QZAB 2003D | 0% | 2018 | 908 |
| 189 | GO 2003C | 4.0%-6.0% | 2011 | 18,000 |
| 188 | GO 2003B | 4.0%-5.0% | 2011 | 7,585 |
| 187 | GO 2003A | 2.625%-5.0% | 2011 | 7,300 |
| 186 | QZAB 2002B | 0% | 2016 | 760 |
| 185 | GO 2002A | 4.0%-5.250% | 2010 | 9,270 |
| 184 | QZAB 2001B | 0% | 2011 | 649 |
| 170 | GO 1992B | 4.7%-6.1% | 2012 | 1,771 |
| | | Total, gross | | 1,497,355 |
| | | Plus: unamortized bond premium | | 127,902 |
| | | Total general obligation bonds | | $ 1,625,257 |

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2010:

**Total General Obligation Bonds**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 140,750 | $ 64,598 | $ 205,348 |
| 2012 | 129,141 | 62,767 | 191,908 |
| 2013 | 134,129 | 56,119 | 190,248 |
| 2014 | 133,065 | 47,833 | 180,898 |
| 2015 | 120,620 | 41,977 | 162,597 |
| 2016-2020 | 451,813 | 136,348 | 588,161 |
| 2021-2025 | 262,057 | 60,644 | 322,701 |
| 2026-2030 | 125,780 | 13,179 | 138,959 |
| Total | $ 1,497,355 | $ 483,465 | $ 1,980,820 |

Changes in general obligation bonded debt during the year ended June 30, 2010 are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. At June 30, 2010, a total of $475.6 million of defeased bonds were outstanding.

## NOTE 6 REVENUE BONDS

### Revenue Bonds

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

**Primary Government**

**DelDOT Fund**

***Delaware Transportation Authority (Authority)***

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

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. Debt issued by the Authority does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenue, motor vehicle document fees, and motor vehicle registrations. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. At June 30, 2010, the amount of defeased debt outstanding amounted to $151.6 million.

The Authority had a total of $200.2 million in authorized but unissued revenue bonds at June 30, 2010. Bonds outstanding at June 30, 2010 amounted to $1,182.0 million and are presented as follows:

**Delaware Transportation Authority Revenue Bonds**
(Expressed in Thousands)

| Description | Interest Rates | Maturity Date (Fiscal Year) | Balance Outstanding At June 30, 2010 |
|---|---|---|---|
| Transportation System Senior Revenue Bonds - Series | | | |
| 2000 | 5.50% | 2020 | $ 3,910 |
| 2001 | 4.5% - 5.0% | 2021 | 24,415 |
| 2002 B | 4.0% - 5.25% | 2022 | 98,245 |
| 2003 | 4.5% - 5.0% | 2023 | 153,305 |
| 2004 | 4.0% - 5.0% | 2024 | 149,330 |
| 2005 | 4.25% - 5.0% | 2025 | 139,510 |
| 2006 | 3.5% - 5.0% | 2026 | 116,240 |
| 2007 | 4.0% - 5.0% | 2021 | 79,280 |
| 2008A | 4.0% - 5.0% | 2028 | 82,450 |
| 2008B | 4.0% - 5.0% | 2029 | 117,875 |
| 2009 | 5.00% | 2029 | 105,315 |
| Transportation System Junior Grant Anticipation Bonds | | | |
| 2010 Series | 2.0% - 5.0% | 2025 | 113,490 |
| | Total, gross | | 1,183,365 |
| | Less: deferred amount on refunding | | (1,352) |
| | Total, net | | 1,182,013 |
| | Less: current portion of debt outstanding | | (71,489) |
| | Long term portion of debt outstanding | | $ 1,110,524 |

Future debt service requirements for the Authority's outstanding bonds are shown in the table below:

**Delaware Transportation Authority Revenue Bonds**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 71,760 | $ 53,061 | 124,821 |
| 2012 | 77,035 | 50,947 | 127,982 |
| 2013 | 79,590 | 47,119 | 126,709 |
| 2014 | 78,375 | 43,210 | 121,585 |
| 2015 | 78,680 | 39,456 | 118,136 |
| 2016-2020 | 365,770 | 143,644 | 509,414 |
| 2021-2025 | 309,960 | 63,864 | 373,824 |
| 2026-2030 | 122,195 | 12,485 | 134,680 |
| Total | $ 1,183,365 | $ 453,786 | $ 1,637,151 |

The transportation system revenue bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the trust funds. Summary financial information at June 30, 2010 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

**Condensed Balance Sheets**
(Expressed in Thousands)

| | |
|---|---|
| Assets: | |
| Current assets | $ 339,185 |
| Capital assets | 1,136,044 |
| Other assets | 62,057 |
| Total assets | $ 1,537,286 |
| Liabilities: | |
| Current liabilities | 127,283 |
| Noncurrent liabilities | 1,143,915 |
| Total liabilities | 1,271,198 |
| Net Assets: | |
| Invested in capital assets, Net of related debt | 40,209 |
| Unrestricted | 65,978 |
| Restricted | 159,901 |
| Total net assets | 266,088 |
| Total liabilities and net assets | $ 1,537,286 |

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

| | | |
|---|---|---|
| Operating revenues (pledged against bonds) | $ | 360,832 |
| Other operating revenues | | 53,132 |
| Depreciation expense | | (194) |
| Other operating expenses | | (342,875) |
| Operating income | | 70,895 |
| Nonoperating revenues (expenses): | | |
| Investment income (pledging against bonds) | | 2,302 |
| Other investment income (loss) | | (19,696) |
| Interest expense | | (43,921) |
| Transfer from State General Fund | | 3,401 |
| Change in net assets | | 12,981 |
| Beginning net assets | | 253,107 |
| Ending net assets | $ | 266,088 |

**Condensed Statements of Cash Flows**
(Expressed in Thousands)

| | | |
|---|---|---|
| Net cash provided by (used in): | | |
| Operating activities | $ | 68,989 |
| Noncapital financing activities | | 3,401 |
| Capital and related financing activities | | (29,421) |
| Investing activities | | (44,728) |
| Net increase (decrease) | | (1,759) |
| Beginning cash and cash equivalents | | 11,084 |
| Ending cash and cash equivalents | $ | 9,325 |

**Component Units**

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

**Delaware State Housing Authority (DSHA)**

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

DSHA has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of DSHA and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 1.35% to 7.75% with maturities of such bonds up through July 1, 2048.

On September 11, 2009, DSHA issued $40.0 million of Single Family Mortgage Revenue Bonds, 2009 Series A. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers and to provide over $2.0 million of Second Mortgage Assistance Loans for down payment and closing cost assistance to qualified home buyers.

On December 23, 2009, DSHA issued $150.0 million of Single Family Mortgage Revenue Bonds, 2009 pursuant to the New Issue bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U.S. Department of the Treasury (US Treasury) under which the US Treasury provides funding for bond issuance. The proceeds from the sale are currently held in escrow pending matching DSHA bond issuances of market bonds to make fund available to finance qualifying single family mortgage loans. The Authority has until December 31, 2010 to meet the requirement for matching bond issuances. If this deadline is not met the $150.0 million NIBP bonds are subject to mandatory redemption plus the payment of accrued interest. As of June 30, 2010, all of the NIBP bonds have been classified as a current liability.

Revenue bonds payable decreased by $1.6 million due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2010 amounted to $964.3 million. Future debt service requirements for DSHA's bonds are shown on the following table:

**Delaware State Housing Authority Revenue Bonds**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 168,457 | $ 40,798 | $ 209,255 |
| 2012 | 17,435 | 39,749 | 57,184 |
| 2013 | 18,475 | 38,877 | 57,352 |
| 2014 | 18,395 | 37,989 | 56,384 |
| 2015 | 18,445 | 37,086 | 55,531 |
| 2016-2020 | 99,800 | 171,057 | 270,857 |
| 2021-2025 | 118,298 | 143,282 | 261,580 |
| 2026-2030 | 143,240 | 109,862 | 253,102 |
| 2031-2035 | 158,316 | 71,135 | 229,451 |
| 2035-2040 | 150,713 | 23,364 | 174,077 |
| 2041-2045 | 23,750 | 7,415 | 31,165 |
| 2046-2049 | 28,948 | 1,375 | 30,323 |
| Total | $ 964,272 | $ 721,989 | $ 1,686,261 |

**Riverfront Development Corporation (RDC)**

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2010 was 5.125%. The bonds mature December 1, 2017.

Estimated future annual debt service requirements are as follows:

**Riverfront Development Corporation Revenue Bonds**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 360 | $ 177 | $ 537 |
| 2012 | 385 | 157 | 542 |
| 2013 | 420 | 137 | 557 |
| 2014 | 470 | 114 | 584 |
| 2015 | 505 | 89 | 594 |
| 2016-2017 | 1,485 | 103 | 1,588 |
| Total | $ $3,625 | $ $777 | $ $4,402 |

**Delaware State University (DSU)**

Revenue bonds payable at June 30, 2010 are as follows:

**Delaware State University**
**Revenue Bonds Payable**
(Expressed in Thousands)

| | | |
|---|---|---|
| Revenue Refunding Bonds | $ | 7,459 |
| Revenue Bonds | | 47,869 |
| Student Housing Foundation Bonds | | 50,703 |
| Total | $ | 106,031 |

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

The Bond Trust Indenture requires DSU to maintain a debt service reserve fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. DSU meets this requirement by providing for the deposit through a surety bond in the debt service reserve fund. This bond was obtained from MBIA Insurance Corporation in the amount of $1.6 million. DSU has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. It was noted that the 1999 bonds were backed by MBIA who had no letter of credit expiration date.

Interest rates and remaining maturities of the 1999 bonds are as follows:

**Delaware State University Revenue Refunding Bonds**
(Expressed In Thousands)

| Year Ending June 30 | Interest Rate | Principal | Interest | Total |
|---|---|---|---|---|
| 2011 | 4.00 | $ 805 | $ 324 | $ 1,129 |
| 2012 | 4.00 | 835 | 290 | 1,125 |
| 2013 | 4.00 | 875 | 254 | 1,129 |
| 2014 | 4.40 | 905 | 215 | 1,120 |
| 2015 | 4.40 | 945 | 175 | 1,120 |
| 2016-2018 | 4.40 - 5.25 | 3,130 | 211 | 3,341 |
| | | 7,495 | $ 1,469 | $ 8,964 |
| Less Unamortized bond discount: | | (36) | | |
| Total bonds payable at June 30, 2010 | | $ 7,459 | | |

On December 20, 2007, DSU issued revenue bonds of $47.6 million (par value) through the Delaware Economic Development Authority (Delaware EDA). The bonds are due on October 1, 2036 and are secured by un-appropriated gross revenues of DSU. The 2007 bonds are being issued as "Additional Bonds" under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. Pursuant to the Indenture, the Delaware EDA issued for the benefit of DSU, its $15.9 million revenue refunding bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. The 2007 bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool, and a student wellness/recreation center. The Union will include a student club area, book store, copy center, mail services, game room, study area, commuter lounge, meeting rooms and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will serve student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports, and an academic component for wellness and health programs. It was noted that the 2007 bonds were backed by MBIA who had no letter of credit expiration date.

**Delaware State University Revenue Bonds**

(Expressed In Thousands)

| Year Ending June 30 | Interest Rate | Principal | Interest | Total |
|---|---|---|---|---|
| 2011 | 4.00 | $ - | $ 2,208 | $ 2,208 |
| 2012 | 4.00 | - | 2,208 | 2,208 |
| 2013 | 4.00 | - | 2,208 | 2,208 |
| 2014 | 4.00 | - | 2,208 | 2,208 |
| 2015 | 4.00 | - | 2,208 | 2,208 |
| 2016-2020 | 4.00 - 5.00 | 2,620 | 10,974 | 13,594 |
| 2021-2025 | 4.00 - 5.00 | 7,630 | 9,856 | 17,486 |
| 2026-2030 | 4.00 - 5.00 | 9,655 | 7,871 | 17,526 |
| 2031-2035 | 4.00 - 5.00 | 12,110 | 5,240 | 17,350 |
| 2036 | 4.00 - 5.00 | 15,565 | 2,194 | 17,759 |
| Total, gross | | 47,580 | $ 47,175 | $ 94,755 |
| Plus unamortized bond premium | | 289 | | |
| Total bonds payable at June 30, 2010 | | $ 47,869 | | |

The Delaware State University Student Housing Foundation (the Foundation), a component unit of DSU, is a non-profit corporation organized for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of DSU. The property is located in Dover, Delaware and the Foundation's development and construction project consists of three phases, collectively known as Phase I, II, and III. The Foundation has a fiscal year-end of June 30, 2010. The Foundation has issued student housing revenue bonds, secured by deed and payable solely from the revenues of the Foundation, for which bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation refinanced the Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (for Phases I and II). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding prior outstanding bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. Effective February 21, 2004, the Foundation defeased the tax-exempt Series 2000A and the tax exempt Series 2002A term bonds at face value. It was further noted that the letter of credit for the 2004A bonds were backed by ACA with no letter of credit expiration, whereas the 2004B bonds were backed by Wachovia, who provided a letter of credit extension through January 2011.

The Foundation financed development and construction of Phase III with a loan payable in an aggregate amount of $36.3 million funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B and 2004C. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their maturities, the former Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The liability of the Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of June 30, 2010 is $0.4 million.

In February 2010, the University entered into an interest rate swap agreement in order to hedge interest rate exposure on the underlying bonds. The swap agreement had a fair value liability of $11,024 at June 30, 2010 which is reflected in the consolidated statement of financial position.

Maturities of long-term debt at June 30, 2010 are as follows:

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

| **Year Ending June 30** | **Principal** |
|---|---|
| 2011 | $ 1,040 |
| 2012 | 1,090 |
| 2013 | 1,140 |
| 2014 | 1,185 |
| 2015 | 1,235 |
| 2016-2020 | 7,085 |
| 2021-2025 | 8,890 |
| 2026-2030 | 11,205 |
| 2031-2035 | 14,170 |
| 2036-2037 | 4,205 |
| Subtotal | $ 51,245 |
| Less bond discount (net of accumulated amortization) | (542) |
| Total | $ 50,703 |

In February 2009, management terminated an interest rate swap held with Wachovia, which was previously entered into for its variable rate, tax-exempt, Series 2004B bonds of $35.9 million. The settlement of the swap resulted in a payment of $212,670, with a June 30, 2009 obligation of $212,629. While the termination of the swap did result in a violation of its debt covenant for its 2004B bonds, the Foundation did obtain a waiver for the respective covenant through January 2010. The Foundation entered into a new interest rate swap agreement with Wells Fargo (formerly Wachovia) in February 2010.

The swap agreement is as follows:

| | Notional Amount | Start Date | Maturity Date | Fixed Rate | Floating rate |
|---|---|---|---|---|---|
| Muncipal Swap Index | $ 34,530,000 | 02/01/2010 | 06/30/2010 | 0.68% | USD/SIFMA |
| Muncipal Swap Index | $ 33,870,000 | 07/01/2010 | 01/22/2011 | 0.68% | USD/SIFMA |

## NOTE 7 LOANS AND NOTES PAYABLE

### Component Units

### Delaware State Housing Authority (DSHA)

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

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

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 123 | $ 117 | $ 240 |
| 2012 | 69 | 117 | 186 |
| 2013 | 20 | 3 | 23 |
| 2014 | 19 | 2 | 21 |
| 2015 | 19 | 1 | 20 |
| Total | $ 250 | $ 240 | $ 490 |

### Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2010 are shown below:

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

| | |
|---|---|
| Transportation Trust Fund Loan | $ 21,043 |
| City of Wilmington Port Debt Service Notes | 7,454 |
| Delaware River and Bay Authority | 3,382 |
| Wilmington Trust Company | 263 |
| Bank of America | 250 |
| Total | $ 32,392 |

***Transportation Trust Fund Loan***

On November 30, 2001, DSPC entered into a loan agreement with DelDOT. DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington Deferred Payment Note.

In July 2006, the Transportation Trust Fund Loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10.0 million to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next 21 years. The interest rate was 3.99% during 2010 and 4.6% during 2009. The loan matures March 2029.

Interest expense charged to operations in 2010 was $0.8 million.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

**Transportation Trust Fund Loan**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 789 | $ 839 | $ 1,628 |
| 2012 | 821 | 807 | 1,628 |
| 2013 | 854 | 774 | 1,628 |
| 2014 | 888 | 740 | 1,628 |
| 2015 | 923 | 704 | 1,627 |
| 2016-2020 | 5,203 | 2,936 | 8,139 |
| 2021-2025 | 6,334 | 1,805 | 8,139 |
| 2026-2030 | 5,231 | 466 | 5,697 |
| Total | $ 21,043 | $ 9,071 | $ 30,114 |

***City of Wilmington Note***

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39.9 million and Port Debt Service Notes with an original face amount of $51.1 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued $22.2 million of general obligation bonds with an average interest rate of 3.70% to advance refund $21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. DSPC-related portions of the new bonds issued and old bonds redeemed were $7.2 million and $6.9 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.3 million for the year ended June 30, 2002, it reduced DSPC's debt service payments by $0.3 million over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt.

On October 5, 2004, the City issued $12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund $11.7 million of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $0.2 million due January 1, 2005. DSPC-related portions of the new bonds issued and old bonds redeemed were $4.0 million and $3.6 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.4 million it reduces DSPC's debt service payments by $0.3 million over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2010 was $0.4 million.

On June 30, 2006, the State of Delaware paid the City, on behalf of DSPC, $5.0 million in lieu of amounts due for the DSPC-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling $5.6 million, reducing the total amount owed to the City by $5.6 million. The effect on the advance payment was a reduction of principal in the amount of $5.0 million, a reduction of accrued interest due July 1, 2006 in the amount of $0.3 million, and a resulting gain of $0.4 million.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which DSPC has correlating notes with the City. Overall, DSPC will pay an additional $60,000 in principal over the next nine years; however, DSPC will save $0.3 million in interest during the same period. In summary, DSPC will pay $0.3 million less on the City notes due to the refunding/financing. Maturity for these bonds occurs on July 1, 2022.

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

Total deferred loss balance as of June 30, 2010 was $0.4 million.

Principal and interest payments made on the note during 2010 were $2.5 million and $0.4 million, respectively.

Interest expense on the note in 2010 was $0.4 million.

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

**Port Debt Service Note**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 422 | $ 364 | $ 786 |
| 2012 | 1,183 | 320 | 1,503 |
| 2013 | 610 | 291 | 901 |
| 2014 | 661 | 264 | 925 |
| 2015 | 701 | 233 | 934 |
| 2016-2020 | 2,416 | 715 | 3,131 |
| 2021-2023 | 1,853 | 126 | 1,979 |
| Subtotal | 7,846 | 2,313 | 10,159 |
| Deferred loss on refunding | (392) | - | (392) |
| Total | $ 7,454 | $ 2,313 | $ 9,767 |

### *Delaware River and Bay Authority (DRBA) Obligation*

On March 1, 2005, DSPC entered into an agreement with the DRBA whereby the DSPC agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was $4.0 million, to be paid in advance. Simultaneously, DSPC and the DRBA entered into an operating agreement in which DSPC agreed to make guaranteed payments to the DRBA, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling $4.0 million plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. DSPC began making guaranteed payments on July 1, 2007.

Interest expense incurred on this obligation was less than $0.1 million.

The future maturities of principal and interest payments on the DRBA obligation are as follows:

**Delaware River and Bay Authority Obligation**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 212 | $ 49 | $ 261 |
| 2012 | 215 | 46 | 261 |
| 2013 | 175 | 86 | 261 |
| 2014 | 181 | 81 | 262 |
| 2015 | 186 | 75 | 261 |
| 2016-2020 | 888 | 419 | 1,307 |
| 2021-2025 | 1,030 | 277 | 1,307 |
| 2026-2027 | 495 | 28 | 523 |
| Total | $ 3,382 | $ 1,061 | $ 4,443 |

***Wilmington Trust Company (WTC) Loan***

DSPC entered into a loan agreement with WTC on August 17, 2007 for $0.4 million to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,186 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.40%.

Interest expense incurred on this obligation was less than a million during 2010.

The future maturities of principal and interest payments on the WTC obligation are as follows:

**Wilmington Trust Company Loan**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 56 | $ 18 | $ 74 |
| 2012 | 61 | 13 | 74 |
| 2013 | 65 | 9 | 74 |
| 2014 | 70 | 4 | 74 |
| 2015 | 11 | - | 11 |
| Total | $ 263 | $ 44 | $ 307 |

***Bank of America Master (BOA) Lease***

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

Interest expense incurred on this obligation was less than a million during 2010.

The future maturities of principal and interest payments on the BOA obligation are as follows:

**Bank of America Master Lease**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 29 | $ 7 | $ 36 |
| 2012 | 29 | 6 | 35 |
| 2013 | 30 | 5 | 35 |
| 2014 | 31 | 4 | 35 |
| 2015 | 32 | 4 | 36 |
| 2016-2018 | 99 | 5 | 104 |
| Total | $ 250 | $ 31 | $ 281 |

**Riverfront Development Corporation (RDC)**

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $14.0 million at June 30, 2010. Interest rates for the mortgages vary between 5.455% and 8.15% and mature between June 2011 and November 2014.

Estimated future annual debt service requirements are shown as follows:

**Riverfront Development Mortgage Debt**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 4,945 | $ 499 | $ 5,444 |
| 2012 | 3,645 | 232 | 3,877 |
| 2013 | 345 | 125 | 470 |
| 2014 | 300 | 116 | 416 |
| 2015 | 4,800 | 56 | 4,856 |
| Total | $ 14,035 | $ 1,028 | $ 15,063 |

## NOTE 8 LEASE COMMITMENTS

### Primary Government

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $176.9 million, of which $151.2 million relates to property leases and $25.7 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Lease payments for fiscal year 2010 were approximately $36.8 million, of which $25.6 million was for office space and $11.2 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $5.0 million for fleet vehicles and data processing equipment for the Office of Management and Budget and $1.5 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $6.7 million for leases for Health and Social Services facilities, $2.1 million for the Department of Services for Children, Youth and Their Families, $2.1 million for office space for the Department of Correction, and $3.2 million for the Department of Labor.

Future minimum lease commitments for operating leases as of June 30, 2010 are shown in the following table:

**Lease Commitments**
(Expressed in Thousands)

| Year Ending June 30 | Operating Leases |
|---|---|
| 2011 | $ 32,644 |
| 2012 | 27,242 |
| 2013 | 23,407 |
| 2014 | 17,615 |
| 2015 | 16,824 |
| 2016-2020 | 38,351 |
| 2021-2025 | 17,089 |
| 2026-2030 | 2,880 |
| 2031-2039 | 846 |
| Total | $ 176,898 |

## NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2010. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $162.4 million has been accrued for the Governmental Activities and $14.2 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $13.2 million in the Governmental Activities and $4.3 million in the Business-type Activities. Approximately $135.1 million (83.2%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $10.5 million (6.5%) and $16.8 million (10.3%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $75.0 million relating to the accrual of the obligation for escheated (abandoned) property of which $15.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of $4.2 million, of which $1.4 million was recorded as the current portion.

## NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the primary government for the year ended June 30, 2010:

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| Net pension obligation (note 15) | $ 112.7 | $ 12.8 | $ (9.9) | $ 115.6 | $ - |
| Other postemployment benefits | 608.5 | 459.6 | (162.0) | 906.1 | - |
| Compensated absences | 146.6 | 27.6 | (11.8) | 162.4 | 13.2 |
| Claims and judgments (notes 13 and 17) | 120.4 | 41.6 | (32.1) | 129.9 | 32.3 |
| Escheat payable | 47.0 | 42.9 | (14.9) | 75.0 | 15.0 |
| Notes payable | 3.0 | 0.4 | (3.2) | 0.2 | - |
| Pollution remediation obligations | 16.5 | 9.9 | (3.0) | 23.4 | 5.5 |
| Bonds payable: | | | | | |
| General obligation bonds | 1,467.1 | 184.6 | (155.8) | 1,495.9 | 140.1 |
| Bond issue premium, net of accumulated amortization | 72.1 | 66.1 | (10.3) | 127.9 | 9.6 |
| Physician and scholarship programs | 4.5 | 1.0 | (1.3) | 4.2 | 1.4 |
| Governmental Activities long-term liabilities | $ 2,598.4 | $ 846.5 | $ (404.3) | $ 3,040.6 | $ 217.1 |
| Business-type Activities: | | | | | |
| Other postemployment benefits | $ 53.9 | $ 34.0 | $ (7.2) | $ 80.7 | $ - |
| Compensated absences | 14.3 | - | (0.1) | 14.2 | 4.3 |
| Claims and judgments (notes 13 and 17) | 5.3 | 0.3 | (2.4) | 3.2 | - |
| Pollution remediation obligations | 2.9 | - | (0.1) | 2.8 | 2.0 |
| Liabilities payable from restricted assets | 5.6 | 2.1 | (1.1) | 6.6 | 3.2 |
| Bonds payable: | | | | | |
| General obligation bonds | 2.1 | - | (0.7) | 1.4 | 0.7 |
| Revenue bonds | 1,142.6 | 113.5 | (76.4) | 1,179.7 | 71.7 |
| Bond issue premium, net of accumulated amortization | 33.8 | 12.4 | (6.4) | 39.8 | 7.4 |
| Business-type Activities long-term liabilities | $ 1,260.5 | $ 162.3 | $ (94.4) | $ 1,328.4 | $ 89.3 |

Changes in long-term obligations for the component units are summarized below:

**Changes in Long-Term Obligations**
**Component Units**
(Expressed in Millions)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Delaware State Housing Authority** | | | | | |
| Compensated absences | $ 0.9 | $ 0.5 | $ (0.4) | $ 1.0 | $ - |
| Escrow deposits | 28.4 | 0.9 | - | 29.3 | - |
| Notes payable | 0.3 | 0.9 | (0.1) | 1.1 | 1.0 |
| Revenue bonds | 993.5 | 190.2 | (219.4) | 964.3 | 168.5 |
| Other long-term obligations | 1.6 | 0.1 | (0.4) | 1.3 | 0.3 |
| Total long-term obligations | $ 1,024.7 | $ 192.6 | $ (220.3) | $ 997.0 | $ 169.8 |
| **Diamond State Port Corporation** | | | | | |
| Notes and loans payable | $ 34.4 | $ 0.7 | $ (2.7) | $ 32.4 | $ 1.5 |
| Total long-term obligations | $ 34.4 | $ 0.7 | $ (2.7) | $ 32.4 | $ 1.5 |
| **Riverfront Development Corporation** | | | | | |
| Revenue bonds | $ 3.9 | $ - | $ (0.3) | $ 3.6 | $ 0.3 |
| Long-term debt | 14.1 | 6.0 | (6.0) | 14.1 | 5.0 |
| Total long-term obligations | $ 18.0 | $ 6.0 | $ (6.3) | $ 17.7 | $ 5.3 |
| **Delaware State University** | | | | | |
| Revenue bonds | $ 56.1 | $ - | $ (0.8) | $ 55.3 | $ 0.8 |
| Other long-term obligations | 1.2 | - | (0.3) | 0.9 | 0.1 |
| Total long-term obligations | $ 57.3 | $ - | $ (1.1) | $ 56.2 | $ 0.9 |
| **Delaware Charter Schools** | | | | | |
| Compensated absences | $ 1.0 | $ 0.1 | $ (0.1) | $ 1.0 | $ - |
| Notes payable | 26.3 | 7.1 | (0.5) | 32.9 | 0.9 |
| Revenue bonds | 25.6 | - | (6.5) | 19.1 | 0.5 |
| Long-term debt | 12.1 | - | (1.1) | 11.0 | 2.0 |
| Total long-term obligations | $ 65.0 | $ 7.2 | $ (8.2) | $ 64.0 | $ 3.4 |

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

The State, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2010 for these entities amounted to $1,113.2 million and $540.4 million, respectively.

## NOTE 12 CAPITAL ASSETS

### (a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2010 were as follows:

**Capital Assets**
(Expressed in Thousands)

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital Assets, not being depreciated | | | | |
| Land | $ 456,328 | $ 7,525 | $ (36,357) | $ 427,496 |
| Easements | 166,715 | 89,938 | - | 256,653 |
| Construction-in-progress | 387,938 | 253,436 | (241,530) | 399,844 |
| Total capital assets, not being depreciated | 1,010,981 | 350,899 | (277,887) | 1,083,993 |
| Capital assets, being depreciated | | | | |
| Vehicles | 74,490 | 5,400 | (6,247) | 73,643 |
| Buildings | 2,929,349 | 251,426 | (19,574) | 3,161,201 |
| Equipment | 92,219 | 4,013 | (5,301) | 90,931 |
| Land Improvements | 115,786 | 10,740 | - | 126,526 |
| Total capital assets being depreciated | 3,211,844 | 271,579 | (31,122) | 3,452,301 |
| Less accumulated depreciation for: | | | | |
| Vehicles | (58,905) | (3,583) | 4,480 | (58,008) |
| Buildings | (894,910) | (58,092) | 7,118 | (945,884) |
| Equipment | (67,735) | (5,627) | 4,759 | (68,603) |
| Land Improvements | (43,461) | (3,733) | - | (47,194) |
| Total accumulated depreciation | (1,065,011) | (71,035) | 16,357 | (1,119,689) |
| Total capital assets, being depreciated, net | 2,146,833 | 200,544 | (14,765) | 2,332,612 |
| Governmental activities capital assets, net | $ 3,157,814 | $ 551,443 | $ (292,652) | $ 3,416,605 |

**Capital Assets**
(Expressed in Thousands)

| **Business-type Activities Lottery** | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| Capital assets, being depreciated | | | | |
| Computer equipment & software | $ 1,395 | $ - | $ - | $ 1,395 |
| Total capital assets being depreciated | 1,395 | - | - | 1,395 |
| Less accumulated depreciation | (1,391) | (2) | - | (1,393) |
| Total capital assets, being depreciated, net | $ 4 | $ (2) | $ - | $ 2 |

**Capital Assets**
(Expressed in Thousands)

| **Business-type Activities DelDOT** | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 249,775 | $ 26,986 | - | $ 276,761 |
| Infrastructure | 3,385,364 | 47,313 | - | 3,432,677 |
| Total capital assets, not being depreciated | 3,635,139 | 74,299 | - | 3,709,438 |
| Capital assets, being depreciated | | | | |
| Buildings & improvements | 89,564 | 3,165 | (1,663) | 91,066 |
| Furniture & equipment | 220,629 | 21,813 | (5,026) | 237,416 |
| Total capital assets being depreciated | 310,193 | 24,978 | (6,689) | 328,482 |
| Less accumulated depreciation for: | | | | |
| Buildings & improvements | (23,696) | (2,443) | 822 | (25,317) |
| Furniture & equipment | (97,159) | (20,609) | 4,631 | (113,137) |
| Total accumulated depreciation | (120,855) | (23,052) | 5,453 | (138,454) |
| Total capital assets, being depreciated, net | 189,338 | 1,926 | (1,236) | 190,028 |
| Total capital assets | $ 3,824,477 | $ 76,225 | $ (1,236) | $ 3,899,466 |
| Business-type activities capital assets, net | $ 3,824,477 | $ 76,225 | $ (1,236) | $ 3,899,466 |

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

**Depreciation Expense**
(Expressed in Thousands)

| | | |
|---|---|---|
| Governmental activities: | | |
| General government | $ | 11,548 |
| Health and children's services | | 6,164 |
| Judicial and public safety | | 10,959 |
| Natural resources and environmental control | | 4,161 |
| Labor | | 76 |
| Education | | 38,127 |
| Total depreciation expense - governmental activities | $ | 71,035 |
| Business-type activities: | | |
| DelDOT | $ | 23,053 |
| Lottery | | 2 |
| Total depreciation expense - business-type activities | $ | 23,055 |

## (b) Component Units

Capital asset activities for the fiscal year ended June 30, 2010 were as follows:

**Component Units**
(Expressed in Thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Delaware State Housing Authority** | | | | |
| Capital assets, not being depreciated | $ 4,646 | $ 861 | (940) | $ 4,567 |
| Capital assets, being depreciated | 40,857 | 1,262 | - | 42,119 |
| Accumulated depreciation | (24,773) | (1,706) | | (26,479) |
| Total capital assets, net | $ 20,730 | $ 417 | $ (940) | $ 20,207 |
| **Diamond State Port Corporation** | | | | |
| Capital assets, not being depreciated | $ 34,494 | $ 3,702 | (1,811) | $ 36,385 |
| Capital assets, being depreciated | 179,895 | 3,700 | - | 183,595 |
| Accumulated depreciation | (50,520) | (5,265) | | (55,785) |
| Total capital assets, net | $ 163,869 | $ 2,137 | $ (1,811) | $ 164,195 |
| **Riverfront Development Corporation** | | | | |
| Capital assets, not being depreciated | $ 114,344 | $ 2,980 | (13,705) | $ 103,619 |
| Capital assets, being depreciated | 45,215 | 13,701 | - | 58,916 |
| Accumulated depreciation | (29,261) | (4,632) | - | (33,893) |
| Total capital assets, net | $ 130,298 | $ 12,049 | $ (13,705) | $ 128,642 |
| **Delaware State University** | | | | |
| Capital assets, not being depreciated | $ 55,037 | $ - | (38,061) | $ 16,976 |
| Capital assets, being depreciated | 188,275 | 103,157 | - | 291,432 |
| Accumulated depreciation | (80,228) | (17,179) | - | (97,407) |
| Total capital assets, net | $ 163,084 | $ 85,978 | $ (38,061) | $ 211,001 |
| **Delaware Charter Schools** | | | | |
| Capital assets, not being depreciated | $ 19,273 | $ 162 | (14,234) | $ 5,201 |
| Capital assets, being depreciated | 60,016 | 17,403 | - | 77,419 |
| Accumulated depreciation | (10,384) | (2,288) | 24 | (12,648) |
| Total capital assets, net | $ 68,905 | $ 15,277 | $ (14,210) | $ 69,972 |

## NOTE 13 RISK MANAGEMENT

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

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

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2010, for workers' compensation, automobile accident and health-care claim liabilities is $162.6 million. The claim liabilities relating to health-care totaling $35.0 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $127.7 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $32.3 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2010 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2010 and 2009 were as follows:

**Changes in Claim Liabilities**
(Expressed in Thousands)

| Fiscal Year | Beginning Balance July 1 | Current Year Claims and Changes in Estimates | Actual Claim Payments | Ending Balance June 30 |
|---|---|---|---|---|
| 2009 | 139,513 | 534,696 | (521,705) | 152,504 |
| 2010 | 152,504 | 559,788 | (549,702) | 162,590 |

### DelDOT

The Delaware Transit Corporation (DTC) maintains coverage on auto and worker's compensation insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $6.4 million of claim liabilities as claims and judgments. Of this amount, $3.2 million has been recorded as current.

## NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

*Plan Description*

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans. The State of Delaware has elected to assume the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University, University of Delaware, Delaware State Housing Authority, Delaware Charter Schools and Delaware Solid Waste Authority. Due to this assumption, the State is a single employer defined benefit plan.

Membership of the plan consisted of the following at June 30, 2010:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 19,103 |
| Terminated plan members entitled to but not yet receiving the benefits | 1,809 |
| Active eligible plan members | 35,926 |
| Total | 56,838 |

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

Eligibility:

State Employees:

Early Retirement:

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

Normal Retirement:

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

Benefits:

During the fiscal year ended June 30, 2010, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

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

Employee Contributions:

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

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

| Years of Service | Percent of Premium Paid by State |
|---|---|
| Less than 10 | 0% |
| 10 - 14 | 50% |
| 15 - 19 | 75% |
| 20 or more | 100% |

*Funding Policy*

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree health care claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for health care are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the trust.

*Contributions*

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. The State contributed $10.0 million in fiscal year 2010. For fiscal year 2010, the State contribution in relation to the annual required contribution (ARC) totaled $171.5 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled $5.6 million.

*Annual OPEB Cost and Net OPEB Obligation*

The State's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State's annual OPEB for fiscal year 2010 and the preceding fiscal year, the amount actually contributed to the plan, and the State's net OPEB obligation (dollar amounts in millions):

| | Total | Governmental Activities | Business-Type Activities * |
|---|---|---|---|
| Net OPEB obligation at June 30, 2008 | $ 291.5 | $ 265.6 | $ 25.9 |
| Annual required contribution | 527.9 | 491.7 | 36.2 |
| Adjustment to annual required contribution | 2.8 | 2.7 | 0.1 |
| Annual OPEB Cost | 822.2 | 760.0 | 62.2 |
| Employer contributions | (159.8) | (151.5) | (8.3) |
| Net OPEB obligation at June 30, 2009 | $ 662.4 | $ 608.5 | $ 53.9 |

| | Total | Governmental Activities | Business-Type Activities * |
|---|---|---|---|
| Net OPEB obligation at June 30, 2009 | 662.4 | $ 608.5 | $ 53.9 |
| Annual required contribution | 498.3 | 459.6 | 38.7 |
| Adjustment to annual required contribution | 0.9 | - | 0.9 |
| Annual OPEB Cost | 1,161.6 | 1,068.1 | 93.5 |
| Employer contributions | (174.7) | (162.0) | (12.7) |
| Net OPEB obligation at June 30, 2010 | $ 986.9 | $ 906.1 | $ 80.8 |

* This column includes DTC's OPEB activity.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2010 and preceding fiscal year are as follows (dollar amounts in millions):

| Ended June 30 | OPEB Cost | Annual OPEB Cost Contributed | OPEB Obligation |
|---|---|---|---|
| 2009 | 516.2 | 31% | 641.5 |
| 2010 | 480.0 | 36% | 956.5 |

*Funded Status and Funding Progress*

As of June 30, 2010, the plan was 1.8% funded. The actuarial accrued liability for benefits was $5,884.0 million, and the actuarial value of assets was $104.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,780.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,798.0 million, and the ratio of the UAAL to the covered payroll was 321%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded in future years to provide multi-year trend data.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010, actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 5.0% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 9.0% with an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.75% rate of salary increase.

**Delaware Transit Corporation (DTC)**

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

*Plan Description*

DTC provides continuation of medical insurance coverage to employees that retire. Based on collective bargaining agreements, any full-time employee is eligible to participate in the plan if the employee retires after meeting the eligibility requirements, which are: 1) age 65 with 5 years of service or after working for 25 years for contract employees or 2) age 55 with 10 years of service or age 62 with five years of service for noncontract employees. Disabled employees must reach eligibility. Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed to access to dental and vision coverage, but must pay the full premium.

Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. Each participant must contribute $0.25 per month per $1,000 of coverage to receive the benefit.

The number of participants are 722 active employees and 79 retirees as of June 30, 2010, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

*Funding Policy*

DTC currently pays for post-employment health care benefits on a pay-as-you-go basis. Although DTC is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume that the pay-as-you-go funding will continue. The cash basis costs associated with these benefits were $865,354 and $803,627 for the fiscal years ended June 30, 2010 and 2009 respectively.

*Annual OPEB Cost and Net Obligation*

DTC's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of DTC's OPEB cost for the year, the amount actually contributed to the plan, and changes to DTC's net OPEB obligation (expressed in thousands):

| | | |
|---|---|---|
| Annual required contribution | $ | 11,677 |
| Interest on net OPEB obligation | | 996 |
| Adjustment to annual required contribution | | (863) |
| Annual OPEB cost (expense) | | 11,810 |
| Contributions made | | (2,365) |
| Increase in net OPEB obligation | | 9,445 |
| Net OPEB obligation - beginning of year | | 20,941 |
| Net OPEB obligation - end of year | $ | 30,386 |

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows (expressed in thousands):

| Fiscal Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2009 | 11,702 | 6.87% | 20,941 |
| 2010 | 11,810 | 20.02% | 30,386 |

*Funded Status and Funding Progress*

As of June 30, 2010, the plan was 1.80% funded. The actuarial accrued liability was $82.6 million which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was $31.4 million and the ratio of the UAAL to the covered payroll was 38%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2010 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 4.75% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8% initially, reduced be decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

## NOTE 15 PENSIONS

### Primary Government

### Pension Plans

The State Board of Pension Trustees (Board) administers the following plans/funds (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below:

- State Employees' Pension Plan;
- Special Fund;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County & Municipal Police and Firefighters' Pension Plans;
- County & Municipal Other Employees' Pension Plan;
- Delaware Volunteer Firemen's Fund;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State's General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

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

Additionally, the following non-DPERS retirements funds/plans, described below, have been established under the custody of the Board for investment purposes only:

- County & Municipal Police and Firefighters' COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Local Government Retirement Investment Pool.

The Delaware Local Government Retirement Investment Pool (DELRIP) is presented separately as investment trust funds in the fiduciary funds statement of net assets and statement of changes in net assets. The remaining non-DPERS retirement funds/plans are included in the pension trust fund.

**Non-DPERS Fund Descriptions and Contributions**

***County & Municipal Police and Firefighters' COLA Fund***

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County & Municipal Police and Firefighters' Pension Plans. This mechanism allows the State to appropriate funds separate to a cost of living adjustment fund (COLA Fund) managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with Section 708 (c), Title 18 of the Delaware Code, when a participating employer grants a post-retirement increase for a plan outside of the DPERS County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution. Allocated funds that are unused will be reverted to the State General Fund.

***Post-Retirement Increase Fund (PRI)***

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. The actuary uses the current actuarial assumptions, methods, and population data to calculate the estimated additional liability resulting from the potential benefit increases. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2010, $26.5 million was transferred to the appropriate plans in DPERS.

No post-retirement increase was granted by the General Assembly in Fiscal years 2008, 2009 and 2010. As of June 30, 2010, previously granted post-retirement increases have outstanding liabilities totaling $13.8 million, which will be funded by the State and transferred to the appropriate plans over the remaining fiscal year as follows:

| Fiscal Year | (Expressed in Thousands) |
|---|---|
| 2011 | 13,825 |
| Total | $ 13,825 |

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2010 was 1.4% of covered payroll. Funding for fiscal year 2011 will be 0.81%.

***Local Government Retirement Investment Pool (DELRIP)***

In June 1996, the State established DELRIP in the custody of the Board to allow local governments the option to pool their pension assets with the System for investment purposes. The DELRIP is an external investment pool that allows local governments within the State to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is voluntary. There were three participating entities in DELRIP as of June 30, 2010, which comprise the pool in its entirety: Sussex County and the Towns of Elsmere and Newport.

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

**Plan Membership, Benefit and Contribution Provisions**

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

***State Employees' Pension Plan***

Plan Description and Eligibility:

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

| | |
|---|---|
| Service Benefits: | Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation. |
| Vesting: | 5 years of credited service. |

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

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

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

Contributions:

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

Burial Benefit: $7,000 per member.

***Special Fund***

Plan Description and Eligibility:

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

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

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

Burial Benefit: $7,000 per member.

***New State Police Pension Plan***

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service at age 62.

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

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

Non-Duty – same as Service Benefits.

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

Contributions:

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

Burial Benefit: $7,000 per member.

***Judiciary Pension Plans (Closed and Revised)***

Plan Description and Eligibility:

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

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

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

Service Benefits:

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

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.
For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

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

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

Disability Benefits: Same as Service Benefits.

Survivor Benefits:

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

Revised - If employee is receiving a pension, the eligible survivor receives 50% of pension (or 2/3 with 2% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 2/3 of the benefit the employee would have received at age 62.

Contributions:

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

Burial Benefit: Not applicable.

***County & Municipal Police and Firefighters' Pension Plans***

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

Disability Benefits:

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

Non-Duty - Same as Service Benefits.

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

Contributions:

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

Burial Benefit: Not applicable.

***County and Municipal Other Employees' Pension Plan***

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:

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

Burial Benefit: Not applicable.

***Delaware Volunteer Firemen's Fund***

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

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

Burial Benefit: Not applicable.

### *Diamond State Port Corporation Pension Plan*

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:

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

Burial Benefit: Not applicable.

### *Closed State Police Pension Plan*

Plan Description and Eligibility:

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

Service Benefits: 50% of monthly salary.

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

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

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

<u>Contributions</u>:

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

<u>Burial Benefit</u>: $7,000 per member.

**Historical Trend Information**

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

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

**NET PENSION OBLIGATION (NPO)**

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Pension Plan for the fiscal years ended June 30, 2010, 2009, and 2008 are as follows:

**Net Pension Obligation (NPO)**
(Expressed in Thousands)

| | Fiscal Year Ended June 30, 2010 | Fiscal Year Ended June 30, 2009 | Fiscal Year Ended June 30, 2008 |
|---|---|---|---|
| Annual Required Contribution | $ 27,214 | $ 26,423 | $ 26,017 |
| Interest on Net Pension Obligation | 9,012 | 8,706 | 8,380 |
| Adjustment to Annual Required Contribution | (9,942) | (9,504) | (9,060) |
| Annual Pension Cost | 26,284 | 25,625 | 25,337 |
| Less Contributions Made | (23,367) | (21,796) | (21,269) |
| Increase in Net Pension Obligation | 2,917 | 3,829 | 4,068 |
| Net Pension Obligation, Beginning of Year | 112,652 | 108,823 | 104,755 |
| Net Pension Obligation, End of Year | $ 115,569 | $ 112,652 | $ 108,823 |

**Three-Year Trend Information**
(Expressed in Thousands)

| | Plan Year Ended | Contribution Made | Annual Pension Cost (APC) | Percent Of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|---|
| State Employees' | 6/30/2010 | $ 101,457 | $ 101,457 | 100.00% | $ - |
| | 6/30/2009 | 96,576 | 96,576 | 100.00% | - |
| | 6/30/2008 | 101,660 | 101,660 | 100.00% | - |
| County & Municpal Police and Firefighters' | 6/30/2010 | $ 7,307 | $ 7,307 | 100.00% | $ - |
| | 6/30/2009 | 12,007 | 12,007 | 100.00% | - |
| | 6/30/2008 | 6,246 | 6,246 | 100.00% | - |
| County & Municpal Other Employees' | 6/30/2010 | $ 1,276 | $ 1,276 | 100.00% | $ - |
| | 6/30/2009 | 2,293 | 2,293 | 100.00% | - |
| | 6/30/2008 | 1,492 | 1,492 | 100.00% | - |
| Delaware Volunteer Firemen's | 6/30/2010 | $ 1,191 | $ 1,703 | 69.94% | $ 2,884 |
| | 6/30/2009 | 1,108 | 1,604 | 69.10% | 2,428 |
| | 6/30/2008 | 1,045 | 1,553 | 67.29% | 1,682 |
| Judiciary | 6/30/2010 | $ 2,473 | $ 2,473 | 100.00% | $ - |
| | 6/30/2009 | 2,549 | 2,549 | 100.00% | - |
| | 6/30/2008 | 2,644 | 2,644 | 100.00% | - |
| New State Police | 6/30/2010 | $ 6,562 | $ 6,562 | 100.00% | $ - |
| | 6/30/2009 | 6,791 | 6,791 | 100.00% | - |
| | 6/30/2008 | 6,643 | 6,643 | 100.00% | - |
| Closed State Police | 6/30/2010 | $ 23,367 | $ 27,214 | 85.86% | $ 115,569 |
| | 6/30/2009 | 21,775 | 26,423 | 82.41% | 112,652 |
| | 6/30/2008 | 21,267 | 25,337 | 83.94% | 108,823 |
| Diamond State Port Corporation | 6/30/2010 | $ 594 | $ 594 | 100.00% | $ - |
| | 6/30/2009 | 694 | 694 | 100.00% | - |
| | 6/30/2008 | 715 | 715 | 100.00% | - |

***Delaware Transportation Authority***

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in the Required Supplementary Information on pages 122 - 134.

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

**Three-Year Trend Information**
(Expressed in Dollars)

| | Plan Year Ended | Contribution Made | Annual Pension Cost | Percent Of APC Contributed | Net Pension Asset |
|---|---|---|---|---|---|
| DTC Pension Plan | 6/30/2010 | $ 1,033,487 | $ 1,033,998 | 99.95% | $ (109,288) |
| | 6/30/2009 | 800,128 | 940,741 | 85.05% | (108,777) |
| | 6/30/2008 | 800,040 | 768,204 | 104.14% | 31,836 |
| Contributory Pension | 12/31/2009 | $ 1,063,098 | $ 674,249 | 157.67% | $ 2,167,594 |
| | 12/31/2008 | 996,405 | 632,751 | 157.47% | 1,778,745 |
| | 12/31/2007 | 879,154 | 440,338 | 199.65% | 1,415,091 |

## Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

## NOTE 16 AFFILIATED ORGANIZATIONS

### State Lottery

### Multi-State Lottery Association

The State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates online games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball. The MUSL also operates the Hot Lotto game, in which the Lottery began participating during fiscal year 2008. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with MUSL as of June 30, 2010, was $2.3 million. This amount is reported by the Lottery as a liability on its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

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

## NOTE 17 COMMITMENTS

### Primary Government

The State has entered into various contractual commitments that contracts for services and for construction of various highway, capital, and lottery projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the governmental funds totaling $325.7 million are shown on the balance sheet as encumbrances. Commitments of the proprietary fund include $280.7 million for DelDOT.

### Component Units

### Diamond State Port Corporation (DSPC)

DSPC has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 20, 2010, DSPC had $15.0 million in cash and investments committed to capital projects.

**Riverfront Development Corporation (RDC)**

The RDC has an outstanding letter of credit in the amount of approximately $4.0 million which expires on November 2012. RDC is required to maintain a letter of credit sufficient to redeem the aggregate outstanding principal amount of the bonds payable plus 39 days of interest. The letter of credit is secured by certain real property owned by RDC and assignment of the lease between RDC and National Railroad Passenger Corporation.

## NOTE 18 CONTINGENCIES

### Primary Government

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $3.7 million. The State recognized $2.2 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2010. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2010 would have a material effect on its financial position or the results of operations.

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

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

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

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

During fiscal year 2010, the State acquired property from an automobile manufacturer. This property will be used by the University of Delaware. This property was not able to be fully tested to determine an estimate of the pollution.

At June 30, 2010, the State had a total pollution remediation liability of $23.4 million, with an estimated potential recovery of $4.5 million from the U.S. Environmental Protection Agency.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $2 million at June 30, 2010) in the event that the annuity issuers default on their obligations.

**Component Units**

DSHA has amounts received or receivable from grant agencies that are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although DSHA expects such amounts, if any, to be immaterial.

## NOTE 19 SUBSEQUENT EVENTS

**Primary Government**

On October 28, 2010, the State issued $310.7 million of its general obligation bonds maturing between July 1, 2011 and July 1, 2030. The bonds consist of Series 2010B, $135.3 million traditional tax-exempt bonds, Series 2010C, $115.8 million federally taxable Build America Bonds, and Series 2010D, $59.6 million federally taxable Qualified School Construction Bonds.

Series 2010B bonds included $51.1 million in principal issued to refund higher priced bonds resulting in a net present value savings of $3.4 million, or 6.3% of the principal refunded. The refunding bonds, together with $84.3 million issued for new projects, were sold to retail and institutional investors, will mature between July 2011 and July 2024 and bore coupons between 2% and 5%. The Series 2010C and 2010D bonds, which were designated as Build America Bonds and Qualified School Construction Bonds for the purposes of the American Recovery and Reinvestment Act of 2009, are federally taxable bonds. As such, the State will elect to receive a cash subsidy from the U.S. Treasury of 35% of the interest payable on the Series 2010C bonds and a cash subsidy of 100% of the interest payable on the Series 2010D bonds. The coupons on the taxable bonds ranged from 3.1% to 4.6% and matured between July 2019 and July 2030.

The proceeds from the new money general obligation bonds, a total of $259.6 million, will be used to provide funds for capital projects across the State.

**Component Units**

**Riverfront Development Corporation (RDC)**

The RDC and the State of Delaware had filed a claim against BP Products of North America for additional environmental remediation cost s that were incurred for land formerly owned by RDC, due to unanticipated conditions discovered at the site. The claim has been settled, and RDC's share of the claims is approximately $0.6 million. These amounts are expected to be received in October, 2010.

**Delaware State Housing Authority (DSHA)**

As of September 28, 2010, the Authority has borrowed an additional $40,020,473 from FHLB Pittsburgh. This additional borrowing was used for the purchase of mortgage backed securities and will be repaid with the proceeds of a bond issue expected to occur in the near future.

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# REQUIRED SUPPLEMENTARY INFORMATION SECTION

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

## BUDGETARY REPORTING

### BUDGETARY BASIS VS. GAAP

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

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

The budgetary general fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary special funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

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

The budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the special fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the special fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the special fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

**Statutory/Budgetary Presentation**

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

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2010, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires that the final legal budget be reflected in the "final budget" column; therefore, updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2010, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the budgetary fund balance designations. Of the $538.5 million budgetary general fund balance at June 30, 2010, $186.4 million is reserved for the budgetary reserve account and $147.2 million is designated as continuing and encumbered appropriations. The $204.9 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statues which are subject to review and change by the Legislature.

**Budgetary Comparison Schedule-General Fund**
**Budget to Actual ( Non-GAAP Budgetary Basis)**
**For the Fiscal Year Ended June 30, 2010**
(Expressed in Millions)

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Personal income taxes | $ 908.3 | $ 848.6 | $ 851.9 | $ 3.3 |
| Business taxes | 1,168.6 | 1,549.6 | 1,523.1 | (26.5) |
| Other taxes | 148.6 | 178.5 | 178.7 | 0.2 |
| License, permits, fines and fees | 292.9 | 307.5 | 308.6 | 1.1 |
| Interest earnings | 11.5 | 10.2 | 10.9 | 0.7 |
| Lottery sales | 297.6 | 275.0 | 275.5 | 0.5 |
| Other non-tax revenue | 91.2 | 63.6 | 86.3 | 22.7 |
| Total revenue | 2,918.7 | 3,233.0 | 3,235.0 | 2.0 |
| **Expenditures** | | | | |
| Legislature | 13.8 | 16.0 | 11.8 | 4.2 |
| Judicial | 87.1 | 89.8 | 86.4 | 3.4 |
| Executive | 97.9 | 166.5 | 89.9 | 76.6 |
| Department of Technology & Information | 35.1 | 38.4 | 32.3 | 6.1 |
| Other Elective Offices | 40.6 | 55.1 | 54.2 | 0.9 |
| Legal | 42.6 | 41.6 | 41.3 | 0.3 |
| Department of State | 27.5 | 29.6 | 27.4 | 2.2 |
| Department of Finance | 20.5 | 28.8 | 24.3 | 4.5 |
| Department of Health & Social Services | 813.5 | 853.0 | 821.4 | 31.6 |
| Department of Services to Child, Youth and Their Families | 130.9 | 129.5 | 118.2 | 11.3 |
| Department of Corrections | 249.4 | 255.7 | 238.0 | 17.7 |
| Department of Natural Resources and Environmental Control | 37.2 | 54.4 | 44.1 | 10.3 |
| Department of Safety & Homeland Security | 122.4 | 121.6 | 117.9 | 3.7 |
| Department of Transportation | 0.0 | 0.0 | 0.0 | 0.0 |
| Department of Labor | 6.7 | 6.8 | 6.2 | 0.6 |
| Department of Agriculture | 7.5 | 7.2 | 6.7 | 0.5 |
| Department of Elections | 3.8 | 4.3 | 4.0 | 0.3 |
| Fire Prevention Commission | 4.4 | 4.5 | 4.3 | 0.2 |
| Delaware National Guard | 4.4 | 4.7 | 3.7 | 1.0 |
| Advisory Council for Exceptional Citizens | 0.2 | 0.2 | 0.2 | 0.0 |
| Higher Education | 224.6 | 227.9 | 227.3 | 0.6 |
| Department of Education | 1,121.1 | 1,175.2 | 1,116.9 | 58.3 |
| Total expenditures | 3,091.2 | 3,310.8 | 3,076.5 | 234.3 |
| Excess (deficiency) of revenue over expenditures | (172.5) | (77.8) | 158.5 | 236.3 |
| **Budgetary fund balance, beginning of year** | 380.0 | 380.0 | 380.0 | 0.0 |
| **Budgetary fund balance, end of year** | $ 207.5 | $ 302.2 | $ 538.5 | $ 236.3 |

| | |
|---|---|
| **Budgetary fund balance** | |
| Designated: | |
| Budget reserve account | $ 186.4 |
| Continuing and encumbered appropriations | 147.2 |
| Undesignated | 204.9 |
| Total | $ 538.5 |

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

**Budgetary Comparison Schedule-Special Fund**
**Budget to Actual ( Non-GAAP Budgetary Basis)**
**For the Fiscal Year Ended June 30, 2010**
(Expressed in Millions)

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Business taxes | $ 47.6 | $ 47.6 | $ 45.2 | $ (2.4) |
| Other taxes | 4.1 | 4.1 | 3.7 | (0.4) |
| License, permits, fines and fees | 94.4 | 94.4 | 103.5 | 9.1 |
| Rentals and sales | 12.1 | 12.1 | 17.9 | 5.8 |
| Interest earnings | 54.8 | 54.8 | 5.8 | (49.0) |
| Grants | 36.2 | 36.2 | 41.3 | 5.1 |
| Other non-tax revenue | 681.1 | 681.1 | 488.8 | (192.3) |
| Total revenue | 930.3 | 930.3 | 706.2 | (224.1) |
| **Expenditures** | | | | |
| Legislative | 0.1 | 0.1 | - | 0.1 |
| Judicial | 11.5 | 12.7 | 9.4 | 3.3 |
| Executive | 138.5 | 120.7 | 79.5 | 41.2 |
| Department of Technology & Information | 29.5 | 39.9 | 17.0 | 22.9 |
| Other Elective Offices | 77.3 | 78.7 | 73.8 | 4.9 |
| Legal | 6.1 | 6.8 | 4.9 | 1.9 |
| Department of State | 37.6 | 47.0 | 34.6 | 12.4 |
| Department of Finance | 60.5 | 86.5 | 58.7 | 27.8 |
| Department of Health & Social Services | 101.1 | 121.0 | 88.9 | 32.1 |
| Department of Services to Child, Youth and Their Families | 19.4 | 23.4 | 16.4 | 7.0 |
| Department of Corrections | 4.2 | 6.0 | 2.7 | 3.3 |
| Department of Natural Resources and Environmental Control | 91.3 | 116.8 | 46.6 | 70.2 |
| Department of Safety & Homeland Security | 12.4 | 14.7 | 9.9 | 4.8 |
| Department of Transportation | 343.8 | 370.9 | 235.2 | 135.7 |
| Department of Labor | 18.4 | 19.7 | 16.3 | 3.4 |
| Department of Agriculture | 8.2 | 8.6 | 5.6 | 3.0 |
| Department of Elections | - | 0.2 | 0.1 | 0.1 |
| Fire Prevention Commission | 2.7 | 2.9 | 2.1 | 0.8 |
| Delaware National Guard | - | - | 0.6 | (0.6) |
| Department of Education | 5.5 | 6.1 | 6.6 | (0.5) |
| Total expenditures | 968.1 | 1,082.7 | 708.9 | 373.8 |
| Excess (deficiency) of revenue over expenditures | (37.8) | (152.4) | (2.7) | 149.7 |
| **Budgetary fund balance, beginning of year** | 379.9 | 379.9 | 379.9 | - |
| **Budgetary fund balance, end of year** | $ 342.1 | $ 227.5 | $ 377.2 | $ 149.7 |

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

## Statutory/Budgetary Reconciliations

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

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

**Budget vs. GAAP Revenue Reconciliation**
**For the Fiscal Year Ended June 30, 2010**
(Expressed in Millions)

| | | |
|---|---|---|
| Budget basis general and special fund revenue for fiscal year 2010 | | $3,941.2 |
| Non-appropriated revenue by category: | | |
| Other revenue | 79.1 | |
| License, fees, permits, and fines | 56.9 | |
| Personal, business, and other taxes | 50.1 | |
| Federal government | 9.6 | |
| Rentals and sales | 10.0 | |
| Interest and other investment income | 4.9 | |
| Adjustments and accruals: | | |
| DelDOT fund revenue | (232.5) | |
| Lottery sales | (333.6) | |
| Local school districts | (13.2) | |
| Interfund revenue | (79.6) | |
| Other accruals and adjustments | (35.1) | |
| Total general fund revenues for fiscal year 2010 | | $3,457.8 |
| Federal fund revenue | 1,406.2 | |
| Local school fund revenue | 493.8 | |
| Capital projects fund revenue | 1.2 | |
| | | 1,901.2 |
| Total GAAP basis governmental funds revenue for fiscal year 2010 | | $5,359.0 |

**Budget vs. GAAP Expenditures Reconciliation**
**For the Fiscal Year Ended June 30, 2010**
(Expressed in Millions)

| | | |
|---|---|---|
| Total budget basis general and special fund expenditures for fiscal year 2010 | | $3,785.4 |
| Non appropriated expenditures by function: | | |
| General government | $542.9 | |
| Health & children's services | 26.2 | |
| Judicial & public safety | 17.6 | |
| Natural resources & environmental control | 32.7 | |
| Labor | 12.5 | |
| Education | 65.0 | |
| Transportation | 14.1 | |
| Adjustments and accruals: | | |
| Tax refunds | (296.3) | |
| Component units | 95.8 | |
| Interfund expenses | (85.4) | |
| Other accruals and adjustments | (465.8) | |
| Total general fund expenditures for fiscal year 2010 | | $3,744.7 |
| Federal fund expenditures | 1,466.4 | |
| Local school district fund expenditures | 378.0 | |
| Capital projects fund expenditures | 244.8 | |
| | | 2,089.2 |
| Total GAAP basis governmental funds expenditures for fiscal year 2010 | | $5,833.9 |

## Required Supplementary Information

## Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,447 centerline miles and approximately 1,556 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0.0 for poor pavement to 5.0 for pavement in good condition.

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

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2010 is not available.

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

Structural Rating Numbers and Percentages for Bridges

| | BCR Condition Rating | 2009 Number | 2009 Percent | 2008 Number | 2008 Percent | 2007 Number | 2007 Percent |
|---|---|---|---|---|---|---|---|
| | | Calendar Year Ended December 31 | | | | | |
| Good | 6-9 | 1,144 | 73.5 | 1,118 | 74.1 | 1,131 | 77.6 |
| Fair | 5 | 295 | 19.0 | 291 | 19.3 | 261 | 17.9 |
| Poor | 0-4 | 117 | 7.5 | 100 | 6.6 | 65 | 4.5 |
| Totals | | 1,556 | 100 | 1,509 | 100 | 1,457 | 100 |

Deck Rating Numbers and Percentages for Bridges

| | OPC Condition Rating | 2009 Square Feet | 2009 Percent | 2008 Square Feet | 2008 Percent | 2007 Square Feet | 2007 Percent |
|---|---|---|---|---|---|---|---|
| | | Calendar Year Ended December 31 | | | | | |
| Good | 6-9 | 6,800,531 | 92.8 | 6,799,842 | 93.0 | 6,809,939 | 93.4 |
| Fair | 5 | 510,306 | 6.9 | 485,635 | 6.6 | 450,384 | 6.2 |
| Poor | 0-4 | 19,558 | 0.3 | 26,253 | 0.4 | 29,590 | 0.4 |
| Totals | | 7,330,395 | 100 | 7,311,730 | 100 | 7,289,913 | 100 |

Center-Line Mile Numbers and Percentages for Road Pavement

| | OPC Condition Rating | 2008 Center-Line Mile | 2008 Percent | 2007 Center-Line Mile | 2007 Percent | 2006 Center-Line Mile | 2006 Percent |
|---|---|---|---|---|---|---|---|
| | | Calendar Year Ended December 31 | | | | | |
| Good | 3.0-5.0 | 3,007 | 67.6 | 3,071 | 68.9 | 3,055 | 68.6 |
| Fair | 2.5-3.0 | 1000 | 22.5 | 935 | 21.0 | 933 | 20.9 |
| Poor | Below 2.5 | 440 | 9.9 | 448 | 10.1 | 466 | 10.5 |
| Totals | | 4,447 | 100 | 4,454 | 100 | 4,454 | 100 |

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

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | Fiscal Year ended June 30 | | | | |
| Estimated | $102,183 | $208,764 | $197,301 | $129,138 | $135,991 |
| Actual | $336,214 | $308,732 | $271,333 | $256,571 | $211,347 |

* The estimated expenditures represent annual Bond Bill authorization. The actual expenditures represent the current year spending, which includes cumulative authorization.

**Required Supplementary Information – Pension**

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

**Delaware Public Employees' Retirement System (DPERS)**

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

**Schedule of Funding Status and Progress**
(Expressed in Thousands)

| Plan | Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1) | (4) Funded Ratio (1) / (2) | (5) Annual Covered Payroll | (6) UAAL/ (Excess) as % of Covered Payroll (3) / (5) |
|---|---|---|---|---|---|---|---|
| State Employees * | 6/30/10 | $ 6,808,957 | $ 7,096,369 | $ 287,369 | 96.0% | $ 1,740,622 | 16.5% |
| | 6/30/09 | 6,744,050 | 6,827,006 | 82,956 | 98.8% | 1,753,129 | 4.7% |
| | 6/30/08 | 6,751,949 | 6,549,856 | (202,093) | 103.1% | 1,711,473 | (11.8%) |
| Special | 6/30/10 | $ 457 | $ 333 | $ (124) | 137.2% | N/A | N/A |
| | 6/30/09 | 516 | 399 | (117) | 129.3% | N/A | N/A |
| | 6/30/08 | 614 | 492 | (122) | 124.8% | N/A | N/A |
| Closed State Police + | 6/30/10 | $ 1,440 | $ 298,493 | $ 297,053 | 0.5% | $ 339 | 87,626.3% |
| | 6/30/09 | 727 | 306,904 | 306,177 | 0.2% | 619 | 49,463.2% |
| | 6/30/08 | 618 | 299,921 | 299,294 | 0.2% | 1,152 | 25,980.4% |
| New State Police * | 6/30/10 | $ 245,303 | $ 260,258 | $ 14,955 | 94.3% | $ 49,896 | 30.0% |
| | 6/30/09 | 229,457 | 241,251 | 11,794 | 95.1% | 50,425 | 23.4% |
| | 6/30/08 | 216,368 | 214,921 | (1,447) | 100.7% | 47,971 | (3.0%) |
| Judiciary* | 6/30/10 | $ 51,550 | $ 60,104 | $ 8,554 | 85.8% | $ 9,798 | 87.3% |
| | 6/30/09 | 49,036 | 57,799 | 8,763 | 84.8% | 9,814 | 89.3% |
| | 6/30/08 | 47,209 | 55,856 | 8,647 | 84.5% | 9,689 | 89.2% |
| Diamond State Port Corporation | 6/30/10 | $ 15,418 | $ 18,354 | $ 2,936 | 84.0% | $ 11,224 | 26.2% |
| | 6/30/09 | 14,353 | 16,284 | 1,931 | 88.1% | 11,071 | 17.4% |
| | 6/30/08 | 13,391 | 14,139 | 748 | 94.7% | 10,270 | 7.3% |
| County & Municipal Police Firefighters | 6/30/10 | $ 135,684 | $ 141,430 | $ 5,746 | 95.9% | $ 56,917 | 10.1% |
| | 6/30/09 | 119,712 | 122,573 | 2,861 | 97.7% | 55,478 | 5.2% |
| | 6/30/08 | 102,423 | 103,911 | 1,488 | 98.6% | 49,328 | 3.0% |
| County and Municipal Other Employees | 6/30/10 | $ 17,596 | $ 19,827 | $ 2,231 | 88.7% | $ 20,591 | 10.8% |
| | 6/30/09 | 15,074 | 16,787 | 1,713 | 89.8% | 19,046 | 9.0% |
| | 6/30/08 | 12,980 | 14,308 | 1,328 | 90.7% | 18,632 | 7.1% |
| | | | | | | Active Member ++ | Cost per Active Member ++ |
| Volunteer Firemen | 6/30/10 | $ 13,663 | $ 27,382 | $ 13,719 | 49.9% | 4,898 | 2,801 |
| | 6/30/09 | 13,241 | 26,562 | 13,321 | 49.8% | 5,074 | 2,625 |
| | 6/30/08 | 12,972 | 25,719 | 12,747 | 50.4% | 5,066 | 2,516 |

* Excludes liability and amortization payments due to cost-of-living adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.
\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.
++ Not expressed in thousands.
N/A – Not Applicable

**Annual Pension Cost, Actuarial Methods and Assumptions - DPERS**

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2010.

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

| Plan | State Employees' | Special | Closed State Police | New State Police | Judiciary |
|---|---|---|---|---|---|
| Annual Pension Cost | $ 101,457 | N/A | $ 27,214 | $ 6,562 | $ 2,473 |
| Actuarial Valuation Date | 6/30/10 | 6/30/10 | 6/30/10 | 6/30/10 | 6/30/10 |
| Actuarial Cost Method | Entry Age Normal | N/A | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss | N/A | Level Dollar Closed | Level Percent Closed | Level Percent Closed |
| Remaining Amortization Period | 20 years [(1)] | N/A | 27 years | 20 years [(1)] | 12.07 years [(1)] |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary Increases [1] | 4.3% to 10.1% | N/A | 4.8% to 5.3% | 4.8% to 16.7% | 4.3% to 13.1% |
| Cost-of-living adjustments | Ad hoc | Ad hoc | Based on CPI | Ad hoc | Ad hoc |

| Plan | Diamond State Port Corporation | County & Municipal Police and Firefighters' | County & Municipal Other Employees | Delaware Volunteer Firemen's |
|---|---|---|---|---|
| Annual Pension Cost | $ 594 | $ 7,307 | $ 1,276 | $ 1,703 |
| Actuarial Valuation Date | 6/30/10 | 6/30/10 | 6/30/10 | 6/30/10 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Closed | Level Percent Open | Level Percent Open | Level Dollar Closed |
| Remaining Amortization Period | 15 years | 10 years | 10 years | 18 years |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary Increases [1] | 4.8% | 4.3% to 15.7% | 4.3% to 10.1% | N/A |
| Cost-of-living adjustments | Ad Hoc | Ad Hoc | Ad Hoc | Ad Hoc |

[1] Excludes liability and amortization payments due to cost-of living adjustments. This liability is funded from the Post-Retirement Increase Fund. Each COLA is funded over 5 years.

N/A: Not applicable

**DelDOT - Delaware Transit Corporation – Pension Data**

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

**Schedule of Funding Status and Progress**
(Expressed in Dollars)

| Plan | Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b) | (d) Funded Ratio (a / b) | (e) Annual Covered Payroll | (f) UAAL (Excess) as % of Covered Payroll (c / e) |
|---|---|---|---|---|---|---|---|
| DTC Pension Plan | 07/01/2009 | $ 10,282,778 | $ 10,797,306 | $ (514,528) | 95.23% | $ 11,624,462 | (4.43%) |
| | 07/01/2008 | 10,886,557 | 11,290,478 | (403,921) | 96.42% | 12,082,615 | (3.34%) |
| | 07/01/2007 | 10,533,449 | 10,873,946 | (340,497) | 96.87% | 9,993,019 | (3.41%) |
| Contributory Plan | 1/1/2010 | $ 26,246,390 | $ 27,215,318 | $ (968,928) | 96.44% | $ 22,675,263 | (4.27%) |

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

| Plan | DTC Pension Plan | Contributory Pension Plan |
|---|---|---|
| Contribution Rates: | | |
| Employer | Actuarially Determined | 5.00% |
| Participants | N/A | 5.00% |
| Annual Pension Cost | $ 1,033,998 | $ 674,249 |
| Contributions Made | $ 1,033,487 | $ 1,063,098 |
| Actuarial Valuation Date | 7/01/09 | 01/01/10 |
| Actuarial Cost Method | Frozen Initial Liability | Entry Age Normal |
| Remaining Amortization Period | 18 | 30 |
| Asset Valuation Method | Market | Five-Year Smoothed Market |
| Actuarial Assumptions: | | |
| Investment rate of return | 7.50% | 7.00% |
| Projected Salary Increases | 4.50% | 4.00% |

**Note:** For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.
N/A: Not applicable

## Required Supplementary Information – OPEB Trust

The following table presents additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

## OPEB Trust

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

**Schedule of Funding Status and Progress**
(Expressed in Millions)

| Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded Actuarial Accrued Liabilities (UAAL) (2) - (1) | (4) Funded Ratio (1) / (2) | (5) Covered Payroll | (6) UAAL as a % of Covered Payroll (3) / (5) |
|---|---|---|---|---|---|---|
| 7/1/2010 | $ 104 | $ 5,884 | $ 5,780 | 1.8% | $ 1,798 | 321% |
| 7/1/2009 | 83 | 5,636 | 5,553 | 1.5% | 1,811 | 307% |

| | |
|---|---|
| Valuation Date | July 1, 2010 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent Open |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 5.00% |
| Rate of Salary Increases | 3.75% (plus merit scale) |
| Ultimate Rate of Medical inflation | 5.00% |
| Initial Rate of Medical Inflation | 9.00% |

| | Total | Governmental Activities | Business Type Activities |
|---|---|---|---|
| Net OPEB obligation at June 30, 2009 | $ 662.4 | $ 608.5 | $ 53.9 |
| Annual required contribution | 498.3 | 459.6 | 38.7 |
| Adjustment to annual required contribution | 0.9 | - | 0.9 |
| Annual OPEB cost | 1161.6 | 1068.1 | 93.5 |
| Employer contribution | (174.7) | (162.0) | (12.7) |
| Net OPEB obligation at June 30, 2010 | $ 986.9 | $ 906.1 | $ 80.8 |

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2010 are as follows (dollar amounts in millions):

| Fiscal Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2010 | $ 480.0 | 36% | $ 956.5 |

**Delaware Transit Corporation - OPEB**

As of June 30, 2010, the plan was 1.80% funded. The actuarial liability was $82.6 million. The covered payroll (annual payroll of active employees covered by the plan) was 31.4 million, and the ratio of the UAAL to the covered payroll was 38%.

In April 1, 2010 actuarial valuation, the projected unit credit method was used the linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.75% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced by decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

# SUPPLEMENTARY INFORMATION
# COMBINING STATEMENTS

**STATE OF DELAWARE**
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**JUNE 30, 2010**
(Expressed in Thousands)

| | State Employees' Pension Plan | Special Fund | New State Police Plan | Judiciary Pension Plans | Delaware Volunteer Firemen's Fund |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 262,597 | $ 17 | $ 9,568 | $ 1,994 | $ 565 |
| Receivables: | | | | | |
| Accrued interest | 16,744 | 1 | 608 | 127 | 15 |
| Investment sales pending | 61,071 | 4 | 2,225 | 464 | - |
| Employer contributions | 8,372 | - | 510 | 175 | - |
| Member contributions | 3,369 | - | 224 | 17 | - |
| Total receivables | 89,556 | 5 | 3,567 | 783 | 15 |
| Investments at fair value: | | | | | |
| Domestic fixed income | 480,574 | 31 | 17,511 | 3,649 | 4,872 |
| Domestic equities | 884,312 | 57 | 32,221 | 6,714 | 4,419 |
| Pooled equity and fixed income | 1,766,192 | 114 | 64,354 | 13,410 | - |
| Alternative investments | 1,515,732 | 97 | 55,228 | 11,508 | - |
| Foreign fixed income | 126,779 | 8 | 4,619 | 963 | - |
| Foreign equities | 838,005 | 54 | 30,534 | 6,363 | 2,427 |
| Total investments | 5,611,594 | 361 | 204,467 | 42,607 | 11,718 |
| **Total assets** | 5,963,747 | 383 | 217,602 | 45,384 | 12,298 |
| **Liabilities** | | | | | |
| Investment purchases payable | 49,426 | 3 | 1,801 | 375 | - |
| Benefits payable | 1,339 | - | 4 | 5 | 16 |
| Accrued investment expenses | 3,535 | - | 128 | 27 | - |
| Accrued administrative expenses | 288 | - | 4 | - | - |
| **Total liabilities** | 54,588 | 3 | 1,937 | 407 | 16 |
| **Assets held in trust for pension benefits and pool participants** | $ 5,909,159 | $ 380 | $ 215,665 | $ 44,977 | $ 12,282 |

| Diamond State Port Corporation Plan | County and Municipal Police and Firefighters' Plans | County and Municipal Police and Firefighters' Cola Fund | County and Municipal Other Employees' Plan | DPERS Post Retirement Increase Fund | Closed State Police Plan | Totals |
|---|---|---|---|---|---|---|
| $ 601 | $ 5,371 | $ 160 | $ 699 | $ 46 | $ 1,397 | $ 283,015 |
| 38 | 339 | 5 | 44 | 7 | 1 | 17,929 |
| 140 | 1,249 | 38 | 163 | 11 | - | 65,365 |
| 50 | 1,122 | - | 748 | 965 | - | 11,942 |
| 17 | 311 | - | 42 | - | 1 | 3,981 |
| 245 | 3,021 | 43 | 997 | 983 | 2 | 99,217 |
| 1,101 | 9,830 | 293 | 1,279 | 84 | - | 519,224 |
| 2,025 | 18,088 | 540 | 2,354 | 154 | - | 950,884 |
| 4,044 | 36,126 | 1,078 | 4,700 | 307 | - | 1,890,325 |
| 3,471 | 31,004 | 925 | 4,033 | 264 | - | 1,622,262 |
| 290 | 2,593 | 77 | 337 | 21 | - | 135,687 |
| 1,919 | 17,141 | 511 | 2,231 | 146 | - | 899,331 |
| 12,850 | 114,782 | 3,424 | 14,934 | 976 | - | 6,017,713 |
| 13,696 | 123,174 | 3,627 | 16,630 | 2,005 | 1,399 | 6,399,945 |
| 113 | 1,011 | 30 | 132 | 9 | - | 52,900 |
| 37 | - | - | 3 | - | - | 1,404 |
| 8 | 72 | 2 | 10 | 1 | - | 3,783 |
| 2 | 5 | - | 2 | - | 3 | 304 |
| 160 | 1,088 | 32 | 147 | 10 | 3 | 58,391 |
| $ 13,536 | $ 122,086 | $ 3,595 | $ 16,483 | $ 1,995 | $ 1,396 | $ 6,341,554 |

**STATE OF DELAWARE**
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | State Employees' Pension Plan | Special Fund | New State Police Plan | Judiciary Pension Plans | Delaware Volunteer Firemen's Fund |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Contributions: | | | | | |
| Employer contributions | $ 101,457 | $ - | $ 6,562 | $ 2,473 | $ 1,191 |
| Transfer of assets from post-retirement increase fund | 26,116 | - | 151 | 190 | - |
| Transfer of assets from outside the system | - | - | - | - | - |
| Member contributions | 44,915 | - | 3,276 | 304 | 181 |
| Other | - | - | 38 | - | - |
| Total contributions | 172,488 | - | 10,027 | 2,967 | 1,372 |
| Investments: | | | | | |
| Investment income | 93,228 | 5 | 3,299 | 694 | 346 |
| Net increase (decrease) in fair value | 681,066 | 48 | 23,358 | 4,953 | 785 |
| Total investment income (loss) | 774,294 | 53 | 26,657 | 5,647 | 1,131 |
| Less investment manager/advisor/custody fees | (17,196) | (1) | (615) | (129) | - |
| Less investment administrative expenses | (534) | - | (7) | (1) | - |
| Net investment income (loss) | 756,564 | 52 | 26,035 | 5,517 | 1,131 |
| **Deductions:** | | | | | |
| Transfer of assets from post-retirement increase fund | - | - | - | - | - |
| Transfer of assets outside the system | - | - | - | - | - |
| Pension payments | 399,253 | 61 | 5,182 | 2,726 | 1,520 |
| Refunds of contributions to members | 3,099 | - | 60 | - | 99 |
| Burial benefit payments | 4,825 | 14 | - | - | - |
| Administrative expenses | 5,376 | 2 | 74 | 15 | 34 |
| **Total deductions** | 412,553 | 77 | 5,316 | 2,741 | 1,653 |
| **Change in net assets** | 516,499 | (25) | 30,746 | 5,743 | 850 |
| **Net assets held in trust for pension benefits:** | | | | | |
| **Net assets - beginning of year** | 5,392,660 | 405 | 184,919 | 39,234 | 11,432 |
| **Net assets - end of year** | $ 5,909,159 | $ 380 | $ 215,665 | $ 44,977 | $ 12,282 |

| Diamond State Port Corporation Plan | County and Municipal Police and Firefighters' Plans | County and Municipal Police and Firefighters' Cola Fund | County and Municipal Other Employees' Plan | DPERS Post Retirement Increase Fund | Closed State Police Plan | Totals |
|---|---|---|---|---|---|---|
| $ 594 | $ 7,307 | $ - | $ 1,276 | $ 23,380 | $ 23,367 | $ 167,607 |
| - | - | - | - | - | - | 26,457 |
| - | - | 2,901 | - | - | - | 2,901 |
| 204 | 3,734 | - | 509 | - | 6 | 53,129 |
| - | - | - | - | - | - | 38 |
| 798 | 11,041 | 2,901 | 1,785 | 23,380 | 23,373 | 250,132 |
| 206 | 1,794 | 74 | 231 | 53 | 7 | 99,937 |
| 1,452 | 12,316 | 949 | 1,559 | 537 | - | 727,023 |
| 1,658 | 14,110 | 1,023 | 1,790 | 590 | 7 | 826,960 |
| (39) | (339) | (11) | (45) | (8) | - | (18,383) |
| (3) | (9) | - | (4) | - | (5) | (563) |
| 1,616 | 13,762 | 1,012 | 1,741 | 582 | 2 | 808,014 |
| - | - | - | - | 26,457 | - | 26,457 |
| - | - | 10,331 | - | - | - | 10,331 |
| 342 | 1,365 | - | 236 | - | 22,592 | 433,277 |
| 56 | 142 | - | 30 | - | - | 3,486 |
| - | - | - | - | - | 91 | 4,930 |
| 29 | 101 | - | 43 | - | 50 | 5,724 |
| 427 | 1,608 | 10,331 | 309 | 26,457 | 22,733 | 484,205 |
| 1,987 | 23,195 | (6,418) | 3,217 | (2,495) | 642 | 573,941 |
| 11,549 | 98,891 | 10,013 | 13,266 | 4,490 | 754 | 5,767,613 |
| $ 13,536 | $ 122,086 | $ 3,595 | $ 16,483 | $ 1,995 | $ 1,396 | $ 6,341,554 |

**STATE OF DELAWARE**
**COMBINING STATEMENT OF NET ASSETS**
**INVESTMENT TRUST FUNDS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | Delaware Local Government Retirement Investment Pool | Delaware Local Government OPEB Investment Trust | Total Investment Trust Funds |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | $ 1,379 | $ 3,141 | $ 4,520 |
| Receivables: | | | |
| Accrued interest | 88 | - | 88 |
| Investment sales pending | 322 | - | 322 |
| Investments, at fair value: | | | |
| Domestic fixed income | 2,524 | 10,608 | 13,132 |
| Domestic equities | 4,645 | 8,453 | 13,098 |
| Pooled equity and fixed income | 9,276 | - | 9,276 |
| Alternative investments | 7,961 | - | 7,961 |
| Foreign fixed income | 665 | - | 665 |
| Foreign equities | 4,402 | 4,395 | 8,797 |
| **Total assets** | 31,262 | 26,597 | 57,859 |
| Investment purchase payable | 260 | - | 260 |
| Accrued investment expense | 19 | 1 | 20 |
| **Total liabilities** | 279 | 1 | 280 |
| **Net assets:** | | | |
| Assets held in trust for pension benefits and pool participants | $ 30,983 | $ 26,596 | $ 57,579 |

**STATE OF DELAWARE**
**COMBINING STATEMENT OF CHANGES IN NET ASSETS**
**INVESTMENT TRUST FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | Delaware Local Government Retirement Investment Trust Funds | Delaware Local Government OPEB Investment Trust | Total Investment Trust Funds |
|---|---|---|---|
| **Additions:** | | | |
| Contributions: | | | |
| Transfer of assets from outside the trust | $ - | $ 43 | $ 43 |
| Total contributions | - | 43 | 43 |
| Investments: | | | |
| Investment earnings | 480 | 760 | 1,240 |
| Net increase (decrease) in fair value of investments | 3,443 | 2,342 | 5,785 |
| Total investment earnings (loss) | 3,923 | 3,102 | 7,025 |
| Less investment manager/advisor/custody fees | (88) | (14) | (102) |
| Less investment administrative expenses | | | - |
| Net investment earnings | 3,835 | 3,088 | 6,923 |
| Total additions | 3,835 | 3,131 | 6,966 |
| **Deductions:** | | | |
| Transfer of assets outside the trust | 119 | 1,037 | 1,156 |
| Total deductions | 119 | 1,037 | 1,156 |
| **Change in net assets** | 3,716 | 2,094 | 5,810 |
| **Net assets - beginning of year** | 27,267 | 24,502 | 51,769 |
| **Net assets - end of year** | $ 30,983 | $ 26,596 | $ 57,579 |

**STATE OF DELAWARE**
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| **Child Support Collection** | **Balance July 1, 2009** | **Additions** | **Deductions** | **Balance June 30, 2010** |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ 1,658 | $ 281,455 | $ 279,553 | $ 3,560 |
| Investments | 206 | 726 | 932 | - |
| Receivables, net | 3,857 | 4,252 | 5,877 | 2,232 |
| Total assets | 5,721 | 286,433 | 286,362 | 5,792 |
| Liabilities | | | | |
| Accounts payable | 5,721 | 286,433 | 286,362 | 5,792 |
| Total liabilities | 5,721 | 286,433 | 286,362 | 5,792 |

| **Court Fines and Restitution** | **Balance July 1, 2009** | **Additions** | **Deductions** | **Balance June 30, 2010** |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 14,547 | 16,315 | 21,376 | 9,486 |
| Investments | 2,859 | 13,441 | 9,454 | 6,846 |
| Receivables, net | 33,140 | 9,260 | 6,260 | 36,140 |
| Total assets | 50,546 | 39,016 | 37,090 | 52,472 |
| Liabilities | | | | |
| Accounts payable | 50,546 | 39,016 | 37,090 | 52,472 |
| Total liabilities | 50,546 | 39,016 | 37,090 | 52,472 |

| **All Other Agency Funds** | **Balance July 1, 2009** | **Additions** | **Deductions** | **Balance June 30, 2010** |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 10,921 | 36,175 | 36,656 | 10,440 |
| Investments | 15,415 | 4,789 | 4,239 | 15,965 |
| Receivables, net | - | - | - | - |
| Total assets | 26,336 | 40,964 | 40,895 | 26,405 |
| Liabilities | | | | |
| Accounts payable | 26,336 | 40,964 | 40,895 | 26,405 |
| Total liabilities | 26,336 | 40,964 | 40,895 | 26,405 |

| **Totals - All Agency Funds** | **Balance July 1, 2009** | **Additions** | **Deductions** | **Balance June 30, 2010** |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 27,126 | 333,945 | 337,585 | 23,486 |
| Investments | 18,480 | 18,956 | 14,625 | 22,811 |
| Receivables, net | 36,997 | 13,512 | 12,137 | 38,372 |
| Total assets | 82,603 | 366,413 | 364,347 | 84,669 |
| Liabilities | | | | |
| Accounts payable | 82,603 | 366,413 | 364,347 | 84,669 |
| Total liabilities | $ 82,603 | $ 366,413 | $ 364,347 | $ 84,669 |

**STATE OF DELAWARE**
**COMBINING BALANCE SHEET**
**LOCAL SCHOOL DISTRICT FUNDS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | Appoquinimink | Brandywine | Caesar Rodney | Cape Henlopen | Capital | Christina | Colonial | Delmar | Indian River | Lake Forest |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | $ 6 | $ 774 | $ 1,160 | $ 720 | $ 1,326 | $ 672 | $ 685 | $ 56 | $ 344 | $ 401 |
| Investments | 17,097 | 10,744 | 13,095 | 23,096 | 19,830 | 46,106 | 39,306 | 1,609 | 27,290 | 8,071 |
| Accounts receivable, net | - | - | - | 48 | - | 216 | - | - | - | - |
| Taxes receivable, net | 1,121 | 1,636 | 785 | 1,742 | 1,507 | 3,775 | 3,030 | 433 | 3,526 | 691 |
| **Total assets** | 18,224 | 13,154 | 15,040 | 25,606 | 22,663 | 50,769 | 43,021 | 2,098 | 31,160 | 9,163 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | |
| Accounts payable | 1,029 | 2,525 | 388 | 1,591 | 758 | 2,569 | 759 | 67 | 955 | 423 |
| Due to general fund | - | - | - | - | - | 2,665 | - | - | - | - |
| Deferred revenue | 1,053 | 1,558 | 741 | 1,612 | 1,327 | 3,496 | 2,887 | 421 | 3,394 | 668 |
| **Total liabilities** | 2,082 | 4,083 | 1,129 | 3,203 | 2,085 | 8,730 | 3,646 | 488 | 4,349 | 1,091 |
| **Fund balances (deficit)** | | | | | | | | | | |
| Reserved for: | | | | | | | | | | |
| Encumbrances | 1,895 | 1,015 | 256 | 350 | 496 | - | 1,880 | 11 | 1,271 | 298 |
| Unreserved (deficit) | 14,247 | 8,056 | 13,655 | 22,053 | 20,082 | 42,039 | 37,495 | 1,599 | 25,540 | 7,774 |
| **Total fund balances** | 16,142 | 9,071 | 13,911 | 22,403 | 20,578 | 42,039 | 39,375 | 1,610 | 26,811 | 8,072 |
| **Total liabilities and fund balances** | $ 18,224 | $ 13,154 | $ 15,040 | $ 25,606 | $ 22,663 | $ 50,769 | $ 43,021 | $ 2,098 | $ 31,160 | $ 9,163 |

**STATE OF DELAWARE**
**COMBINING BALANCE SHEET - CONTINUED**
**LOCAL SCHOOL DISTRICT FUNDS**
**JUNE 30, 2010**
(Expressed in Thousands)

| | Laurel | Milford | NCC Vo-Tech | Polytech | Red Clay | Seaford | Smyrna | Sussex Co Vo-Tech | Woodbridge | DOE Administration | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | $ 387 | $ 343 | $ 35 | $ 8 | $ 488 | $ 967 | $ 124 | $ 8 | $ 174 | $ - | $ 8,678 |
| Investments | 763 | 10,554 | 18,457 | 7,116 | 43,931 | 7,936 | 12,038 | 6,202 | 4,365 | 9 | 317,615 |
| Accounts receivable, net | 1 | - | - | - | - | - | - | 312 | - | - | 577 |
| Taxes receivable, net | 950 | 937 | 1,264 | 362 | 2,813 | 1,912 | 489 | 963 | 1,166 | - | 29,102 |
| **Total assets** | 2,101 | 11,834 | 19,756 | 7,486 | 47,232 | 10,815 | 12,651 | 7,485 | 5,705 | 9 | 355,972 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | | |
| Accounts payable | 240 | 251 | 271 | 108 | 4,333 | 201 | 313 | 180 | 200 | - | 17,161 |
| Due to general fund | - | - | - | - | - | - | - | - | | - | 2,665 |
| Deferred revenue | 929 | 868 | 1,196 | 334 | 2,617 | 1,847 | 453 | 1,233 | 1,145 | - | 27,779 |
| **Total liabilities** | 1,169 | 1,119 | 1,467 | 442 | 6,950 | 2,048 | 766 | 1,413 | 1,345 | - | 47,605 |
| **Fund balances (deficit)** | | | | | | | | | | | |
| Reserved for: | | | | | | | | | | | |
| Encumbrances | 3 | 318 | 744 | - | 3,195 | 58 | 157 | 34 | 246 | - | 12,227 |
| Unreserved (deficit) | 929 | 10,397 | 17,545 | 7,044 | 37,087 | 8,709 | 11,728 | 6,038 | 4,114 | 9 | 296,140 |
| **Total fund balances** | 932 | 10,715 | 18,289 | 7,044 | 40,282 | 8,767 | 11,885 | 6,072 | 4,360 | 9 | 308,367 |
| **Total liabilities and fund balances** | $ 2,101 | $ 11,834 | $ 19,756 | $ 7,486 | $ 47,232 | $ 10,815 | $ 12,651 | $ 7,485 | $ 5,705 | $ 9 | $ 355,972 |

**STATE OF DELAWARE**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS)**
**LOCAL SCHOOL DISTRICT FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

| | Appoquinimink | Brandywine | Caesar Rodney | Cape Henlopen | Capital | Christina | Colonial | Delmar | Indian River | Lake Forest |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| Real estate taxes | $ 24,484 | $ 57,925 | $ 8,356 | $ 24,854 | $ 17,649 | $ 78,873 | $ 39,629 | $ 1,437 | $ 31,713 | $ 4,973 |
| Licenses, fees, permits and fines | - | 6 | 17 | | | - | - | - | 25 | 5 |
| Rentals and sales | 2,943 | 2,056 | 168 | 343 | 475 | 862 | 77 | 102 | 863 | 1,370 |
| Federal governmen | - | 102 | 13 | 78 | 2 | 232 | 6 | - | 181 | - |
| Interest & other investment income | 298 | 335 | 183 | 296 | 270 | 680 | 509 | 29 | 375 | 122 |
| Other | 3,473 | 1,940 | 1,435 | 1,412 | 3,356 | 990 | 5,431 | 371 | 5,770 | 1,364 |
| **Total revenues** | 31,198 | 62,364 | 10,172 | 26,983 | 21,752 | 81,637 | 45,652 | 1,939 | 38,927 | 7,834 |
| **Expenditures** | | | | | | | | | | |
| Education | 21,603 | 48,265 | 10,739 | 23,811 | 14,678 | 61,242 | 22,937 | 2,219 | 27,895 | 7,753 |
| Unrestricted payments to component unit - Education | 1,241 | 2,491 | 416 | 263 | 865 | 5,709 | 1,963 | 2 | 162 | 77 |
| **Total expenditures** | 22,844 | 50,756 | 11,155 | 24,074 | 15,543 | 66,951 | 24,900 | 2,221 | 28,057 | 7,830 |
| **Excess (deficiency) of revenues over expenditures** | 8,354 | 11,608 | (983) | 2,909 | 6,209 | 14,686 | 20,752 | (282) | 10,870 | 4 |
| **Other Sources (Uses) of Financial Resources** | | | | | | | | | | |
| Transfers in | 719 | 4,400 | 7,103 | 4,600 | 1,526 | 15,900 | 2,281 | 628 | 7,463 | 1,283 |
| Transfers out | (7,038) | (10,268) | (4,112) | (4,913) | (3,956) | (17,115) | (8,819) | (786) | (10,184) | (1,306) |
| **Total other sources (uses) of financial resources** | (6,319) | (5,868) | 2,991 | (313) | (2,430) | (1,215) | (6,538) | (158) | (2,721) | (23) |
| **Net change in fund balances** | 2,035 | 5,740 | 2,008 | 2,596 | 3,779 | 13,471 | 14,214 | (440) | 8,149 | (19) |
| Fund balances - beginning | 14,107 | 3,331 | 11,903 | 19,807 | 16,799 | 28,568 | 25,161 | 2,050 | 18,662 | 8,091 |
| Fund balances - ending | $ 16,142 | $ 9,071 | $ 13,911 | $ 22,403 | $ 20,578 | $ 42,039 | $ 39,375 | $ 1,610 | $ 26,811 | $ 8,072 |

**STATE OF DELAWARE**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANECS (DEFICITS) - CONTINUED**
**LOCAL SCHOOL DISTRICT FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)
(continued)

| | Laurel | Milford | NCC Vo-Tech | Polytech | Red Clay | Seaford | Smyrna | Sussex Co Vo-Tech | Woodbridge | DOE Administration | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | | |
| Real estate taxes | $ 2,893 | $ 7,275 | $ 25,036 | $ 4,037 | $ 80,301 | $ 6,380 | $ 7,087 | $ 7,757 | $ 4,059 | $ - | 434,718 |
| Licenses, fees, permits and fines | 1 | 1 | - | 1 | - | - | 697 | | 911 | - | 1,664 |
| Rentals and sales | 186 | 86 | 352 | 2,002 | 1,209 | 43 | 49 | 648 | 269 | - | 14,103 |
| Federal governmen | - | - | - | - | 9 | - | 38 | 1 | (2) | - | 660 |
| Interest & other investment income | 16 | 244 | 259 | 87 | 570 | 104 | 200 | 78 | 57 | - | 4,712 |
| Other | 527 | 816 | 3,198 | 61 | 4,549 | 399 | 1,029 | 1,022 | 1,208 | (412) | 37,939 |
| **Total revenues** | 3,623 | 8,422 | 28,845 | 6,188 | 86,638 | 6,926 | 9,100 | 9,506 | 6,502 | (412) | 493,796 |
| **Expenditures** | | | | | | | | | | | |
| Education | 3,084 | 5,803 | 24,589 | 4,047 | 64,061 | 5,006 | 4,577 | 6,929 | 5,141 | - | 364,379 |
| Unrestricted payments to component unit - Education | 11 | 28 | | | | 60 | 342 | | 33 | - | 13,663 |
| **Total expenditures** | 3,095 | 5,831 | 24,589 | 4,047 | 64,061 | 5,066 | 4,919 | 6,929 | 5,174 | - | 378,042 |
| **Excess (deficiency) of revenues over expenditures** | 528 | 2,591 | 4,256 | 2,141 | 22,577 | 1,860 | 4,181 | 2,577 | 1,328 | (412) | 115,754 |
| **Other Sources (Uses) of Financial Resources** | | | | | | | | | | | |
| Transfers in | 247 | 571 | 374 | 11 | 6,255 | 1,304 | 465 | 158 | 474 | 412 | 56,174 |
| Transfers out | (786) | (3,090) | (1,532) | (242) | (10,060) | (1,833) | (2,926) | (827) | (1,131) | - | (90,924) |
| **Total other sources (uses) of financial resources** | (539) | (2,519) | (1,158) | (231) | (3,805) | (529) | (2,461) | (669) | (657) | 412 | (34,750) |
| **Net change in fund balances** | (11) | 72 | 3,098 | 1,910 | 18,772 | 1,331 | 1,720 | 1,908 | 671 | - | 81,004 |
| Fund balances - beginning | 943 | 10,643 | 15,191 | 5,134 | 21,510 | 7,436 | 10,165 | 4,164 | 3,689 | 9 | 227,363 |
| Fund balances - ending | $ 932 | $ 10,715 | $ 18,289 | $ 7,044 | $ 40,282 | $ 8,767 | $ 11,885 | $ 6,072 | $ 4,360 | $ 9 | $ 308,367 |

# STATISTICAL SECTION

## Statistical Section Index

The statistical section of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, notes to the financial statements, and required supplementary information of the primary government says about the State's overall financial health.



**Sources**: Unless otherwise noted, the information in these schedules is derived from the State's Comprehensive Annual Financial Report for the relevant fiscal year. In fiscal year 2002, the State implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ; schedules presenting government-wide information include information beginning in that year. Fund schedules are presented for the last ten years, except where noted.

**STATE OF DELAWARE**
**Net Assets by Component**
**Last Nine Fiscal Years**
(Accrual basis of accounting, expressed in thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 * | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Governmental activities** | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 680,717 | $ 762,239 | $ 767,977 | $ 983,693 | $ 1,244,073 | $ 1,385,413 | $ 1,515,272 | $ 1,665,199 | $ 1,799,599 |
| Restricted | 128,930 | 136,460 | 148,150 | 161,050 | 175,365 | 182,750 | 186,430 | 186,430 | 186,430 |
| Unrestricted | 676,829 | 734,589 | 1,112,774 | 1,159,119 | 1,089,100 | 1,183,671 | 884,060 | 366,597 | 269,978 |
| **Total governmental activities net assets** | $ 1,486,476 | $ 1,633,288 | $ 2,028,901 | $ 2,303,862 | $ 2,508,538 | $ 2,751,834 | $ 2,585,762 | $ 2,218,226 | $ 2,256,007 |
| **Business-type activities** | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 2,651,025 | $ 2,464,049 | $ 2,561,502 | $ 2,530,183 | $ 2,616,971 | $ 2,653,221 | $ 2,731,901 | $ 2,727,661 | $ 2,803,634 |
| Restricted | 310,619 | 256,792 | 219,844 | 341,895 | 358,547 | 342,263 | 308,738 | 202,220 | 137,831 |
| Unrestricted | 153,418 | 299,855 | 172,428 | 75,335 | 76,907 | 89,806 | 64,577 | 56,596 | 5,069 |
| **Total business-type activities net assets** | $ 3,115,062 | $ 3,020,696 | $ 2,953,774 | $ 2,947,413 | $ 3,052,425 | $ 3,085,290 | $ 3,105,216 | $ 2,986,477 | $ 2,946,534 |
| **Primary government** | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 3,331,742 | $ 3,226,288 | $ 3,329,479 | $ 3,513,876 | $ 3,861,044 | $ 4,038,634 | $ 4,247,173 | $ 4,392,860 | $ 4,603,233 |
| Restricted | 439,549 | 393,252 | 367,994 | 502,945 | 533,912 | 525,013 | 495,168 | 388,650 | 324,261 |
| Unrestricted | 830,247 | 1,034,444 | 1,285,202 | 1,234,454 | 1,166,007 | 1,273,477 | 948,637 | 423,193 | 275,047 |
| **Total primary government net assets** | $ 4,601,538 | $ 4,653,984 | $ 4,982,675 | $ 5,251,275 | $ 5,560,963 | $ 5,837,124 | $ 5,690,978 | $ 5,204,703 | $ 5,202,541 |

**Source:**
Statement of Net Assets, as presented in the State's Comprehensive Annual Financial Report for the applicable fiscal year

**Notes:**
GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* , recommends, but does not require, the information in the statistical section to cover the last ten years or the period retroactive to the adoption of GASB Statement No. 34. The State implemented GASB Statement No. 34 in fiscal year 2002; therefore, ten years of data is not available, but will be accumulated over time.

* The State implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* , during fiscal year 2009. The provisions of GASB Statement No. 49 require the measurement of pollution remediation liabilities at July 1, 2008; therefore, the State's ending net assets for fiscal year 2008 have been restated.

**STATE OF DELAWARE**
**Changes in Net Assets**
**Last Nine Fiscal Years**
(Accrual basis of accounting, expressed in thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Expenses** | | | | | | | | | |
| **Governmental activities:** | | | | | | | | | |
| General government | $ 477,142 | $ 341,054 | $ 339,945 | $ 404,190 | $ 480,490 | $ 513,326 | $ 549,263 | $ 551,390 | $ 436,025 |
| Health and children's services | 1,240,332 | 1,363,289 | 1,399,354 | 1,450,505 | 1,619,176 | 1,699,475 | 1,869,754 | 1,980,118 | 2,059,215 |
| Judicial and public safety | 389,806 | 422,921 | 442,345 | 477,691 | 539,365 | 574,809 | 640,380 | 641,296 | 624,565 |
| Natural resources and environmental control | 111,443 | 100,171 | 113,189 | 95,622 | 114,287 | 173,331 | 164,446 | 154,871 | 148,776 |
| Labor | 60,650 | 59,521 | 61,963 | 61,360 | 61,013 | 74,194 | 68,172 | 77,911 | 74,163 |
| Education | 1,410,708 | 1,422,820 | 1,422,046 | 1,592,035 | 1,719,901 | 1,774,528 | 2,031,009 | 2,002,158 | 2,040,439 |
| Payment to component unit: | | | | | | | | | |
| General government | - | 10,107 | 1,952 | - | - | - | - | - | - |
| Education | - | 64,670 | 73,361 | 73,279 | 81,575 | 89,945 | 99,969 | 100,139 | 105,819 |
| Interest | 31,576 | 42,000 | 50,201 | 44,003 | 46,051 | 50,560 | 52,224 | 57,570 | 55,782 |
| **Total governmental activities expenses** | 3,721,657 | 3,826,553 | 3,904,356 | 4,198,685 | 4,661,858 | 4,950,168 | 5,475,217 | 5,565,453 | 5,544,784 |
| **Business-type activities:** | | | | | | | | | |
| Lottery | 380,084 | 353,840 | 357,011 | 388,062 | 408,997 | 424,111 | 419,223 | 388,260 | 353,449 |
| DelDOT | 448,839 | 505,409 | 506,351 | 526,234 | 485,169 | 504,466 | 535,150 | 602,296 | 626,012 |
| Unemployment | 116,538 | 125,270 | 114,136 | 92,284 | 92,025 | 108,851 | 113,955 | 203,817 | 379,065 |
| **Total business-type activities expenses** | 945,461 | 984,519 | 977,498 | 1,006,580 | 986,191 | 1,037,428 | 1,068,328 | 1,194,373 | 1,358,526 |
| **Total primary government expenses** | 4,667,118 | 4,811,072 | 4,881,854 | 5,205,265 | 5,648,049 | 5,987,596 | 6,543,545 | 6,759,826 | 6,903,310 |
| **Program revenues** | | | | | | | | | |
| **Governmental activities:** | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| General government | 348,378 | 166,077 | 131,470 | 130,493 | 148,056 | 223,600 | 172,093 | 104,268 | 149,299 |
| Health and children's services | 108,695 | 142,245 | 138,056 | 117,708 | 83,445 | 110,168 | 99,438 | 87,548 | 121,855 |
| Judicial and public safety | 41,417 | 49,809 | 42,086 | 55,026 | 46,762 | 49,535 | 53,803 | 52,681 | 60,024 |
| Natural resources and environmental control | 20,662 | 53,009 | 36,491 | 20,806 | 66,354 | 56,559 | 47,374 | 42,555 | 58,925 |
| Labor | 77 | 4,726 | 3,241 | 2,910 | - | 10,918 | - | - | - |
| Education | 10,450 | 96,179 | 76,862 | 78,577 | 65,552 | 40,317 | 28,235 | 57,101 | 63,099 |
| Operating grants and contributions | 718,815 | 772,470 | 894,779 | 905,737 | 959,567 | 1,001,981 | 1,094,610 | 1,199,961 | 1,460,903 |
| Capital grants and contributions | - | - | - | 5,000 | 3,334 | 1,740 | 16,142 | 9,936 | 30,861 |
| **Total governmental activities program revenues** | 1,248,494 | 1,284,515 | 1,322,985 | 1,316,257 | 1,373,070 | 1,494,818 | 1,511,695 | 1,554,050 | 1,944,966 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Business-type activities:** | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| Lottery | $ 674,049 | $ 628,064 | $ 640,925 | $ 689,291 | $ 727,993 | $ 755,127 | $ 742,260 | $ 704,308 | $ 689,652 |
| DelDOT | 312,680 | 312,463 | 341,772 | 342,743 | 379,246 | 379,387 | 428,646 | 426,046 | 426,924 |
| Unemployment | 60,571 | 53,525 | 62,836 | 73,449 | 86,632 | 72,254 | 74,984 | 76,608 | 119,473 |
| Operating grants and contributions | 26,415 | - | - | - | - | - | - | - | 196,889 |
| Capital grants and contributions | 106,938 | 115,502 | 92,680 | 106,389 | 107,463 | 103,331 | 156,740 | 193,219 | 238,276 |
| **Total business-type activities program revenues** | 1,180,653 | 1,109,554 | 1,138,213 | 1,211,872 | 1,301,334 | 1,310,099 | 1,402,630 | 1,400,181 | 1,671,214 |
| **Total primary government program revenues** | 2,429,147 | 2,394,069 | 2,461,198 | 2,528,129 | 2,674,404 | 2,804,917 | 2,914,325 | 2,954,231 | 3,616,180 |
| **Net (expenses) revenue** | | | | | | | | | |
| **Governmental activities** | (2,473,163) | (2,542,038) | (2,581,371) | (2,882,428) | (3,288,788) | (3,455,350) | (3,963,522) | (4,011,403) | (3,599,818) |
| **Business-type activities** | 235,192 | 125,035 | 160,715 | 205,292 | 315,143 | 272,671 | 334,302 | 205,808 | 312,688 |
| **Total primary government net expense** | (2,237,971) | (2,417,003) | (2,420,656) | (2,677,136) | (2,973,645) | (3,182,679) | (3,629,220) | (3,805,595) | (3,287,130) |
| **General revenues and other changes in net assets** | | | | | | | | | |
| **Governmental activities:** | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Personal Income | 718,672 | 706,277 | 777,969 | 882,020 | 1,014,499 | 1,016,911 | 1,010,325 | 914,460 | 760,617 |
| Business | 1,153,025 | 1,180,281 | 1,356,081 | 1,375,828 | 1,535,139 | 1,672,112 | 1,659,565 | 1,655,938 | 1,820,023 |
| Real Estate | 167,258 | 201,115 | 240,296 | 317,664 | 349,728 | 388,135 | 398,881 | 428,878 | 434,718 |
| Other | 238,574 | 267,177 | 289,346 | 264,165 | 287,651 | 254,960 | 297,971 | 238,786 | 250,630 |
| Investment Earnings | 58,624 | 73,911 | 36,109 | 35,624 | 49,577 | 82,701 | 84,449 | 41,140 | 20,185 |
| Gain (loss) on sale of assets | - | 13,536 | (2,482) | - | 721 | (72) | - | - | - |
| Miscellaneous | - | - | 37,105 | 37,570 | 33,595 | 24,287 | 30,629 | 29,197 | 15,546 |
| Transfers | 266,090 | 246,553 | 242,560 | 244,518 | 222,554 | 259,612 | 332,132 | 335,468 | 335,880 |
| **Total governmental activities** | 2,602,243 | 2,688,850 | 2,976,984 | 3,157,389 | 3,493,464 | 3,698,646 | 3,813,952 | 3,643,867 | 3,637,599 |
| **Business-type activities:** | | | | | | | | | |
| Investment Earnings | 26,915 | 25,073 | 18,261 | 18,208 | 16,634 | 23,486 | 21,322 | 11,686 | (15,336) |
| Gain (loss) on sale of assets | (60) | (287) | (654) | 561 | (4,211) | (2,680) | 299 | 235 | (415) |
| Miscellaneous | - | - | - | - | - | (1,000) | (1,000) | (1,000) | (1,000) |
| Transfers | (266,090) | (246,553) | (242,560) | (244,518) | (222,554) | (259,612) | (332,132) | (335,468) | (335,880) |
| **Total business-type activities** | (239,235) | (221,767) | (224,953) | (225,749) | (210,131) | (239,806) | (311,511) | (324,547) | (352,631) |
| **Change in net assets** | | | | | | | | | |
| **Governmental activities** | 129,080 | 146,812 | 395,613 | 274,961 | 204,676 | 243,296 | (149,570) | (367,536) | 37,781 |
| **Business-type activities** | (4,043) | (96,732) | (64,238) | (20,457) | 105,012 | 32,865 | 22,791 | (118,739) | (39,943) |
| **Total primary government** | $ 125,037 | $ 50,080 | $ 331,375 | $ 254,504 | $ 309,688 | $ 276,161 | $ (126,779) | $ (486,275) | $ (2,162) |

**Source:**
Statement of Activities, as presented in the State's Comprehensive Annual Financial Report for the applicable fiscal year.

**Note:**
GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* , recommends, but does not require, the information in the statistical section to cover the last ten years or the period retroactive to the adoption of GASB Statement No. 34. The State implemented GASB Statement No. 34 in fiscal year 2002; therefore, ten years of data is not available, but will be accumulated over time.

**STATE OF DELAWARE**
**Changes in Fund Balances, Governmental Funds**
**Last Ten Fiscal Years**
(Modified accrual basis of accounting, expressed in thousands)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| Taxes (1) | $ 2,257,952 | $ 2,271,259 | $ 2,352,666 | $ 2,673,622 | $ 2,836,555 | $ 3,187,378 | $ 3,322,523 | $ 3,366,308 | $ 3,238,062 | $ 3,249,145 |
| Licenses, fees, permits and fines (9) | 728,414 | 228,599 | 241,663 | 296,238 | 296,011 | 319,768 | 339,347 | 355,604 | 356,228 | 392,388 |
| Rentals and sales | 333,747 | 49,576 | 43,461 | 51,793 | 57,246 | 51,047 | 59,547 | 34,294 | 37,736 | 38,615 |
| Federal government | 664,263 | 731,918 | 775,725 | 913,880 | 929,703 | 976,143 | 1,016,215 | 1,111,247 | 1,220,072 | 1,442,722 |
| Interest and other investment income | 111,374 | 58,624 | 73,911 | 36,109 | 35,624 | 49,577 | 82,701 | 84,313 | 41,140 | 20,185 |
| Other revenues (9) | 153,234 | 230,241 | 260,270 | 295,087 | 266,657 | 340,827 | 313,765 | 109,385 | 146,967 | 215,951 |
| **Total revenues** | 4,248,984 | 3,570,217 | 3,747,696 | 4,266,729 | 4,421,796 | 4,924,740 | 5,134,098 | 5,061,151 | 5,040,205 | 5,359,006 |
| **Expenditures** | | | | | | | | | | |
| General government (2) (9) | 938,328 | 466,848 | 413,096 | 422,785 | 503,097 | 633,784 | 681,609 | 568,408 | 577,079 | 471,515 |
| Health and children's services (3) | 1,175,376 | 1,261,128 | 1,372,705 | 1,407,976 | 1,480,000 | 1,674,907 | 1,751,795 | 1,880,828 | 1,996,677 | 2,059,159 |
| Judicial and public safety (4) | 398,293 | 407,608 | 410,084 | 439,640 | 472,406 | 543,684 | 580,707 | 585,648 | 572,830 | 578,777 |
| Natural resources and environmental control | 128,272 | 125,301 | 116,399 | 165,960 | 160,840 | 192,706 | 212,296 | 174,823 | 157,669 | 156,268 |
| Labor (6) | 49,228 | 60,572 | 59,500 | 62,716 | 68,156 | 66,646 | 66,785 | 65,656 | 75,804 | 73,922 |
| Transportation (7) | 293,358 | - | - | - | - | - | - | - | - | |
| Education (5) | 1,446,986 | 1,440,044 | 1,432,937 | 1,501,237 | 1,633,834 | 1,773,371 | 1,821,210 | 1,836,092 | 1,851,336 | 1,886,353 |
| Payment to component unit: | | | | | | | | | | |
| General government (9) | - | 8,821 | 5,927 | 1,952 | - | - | - | - | - | |
| Education (9) | - | 40,571 | 68,850 | 73,361 | 73,279 | 81,575 | 89,945 | 99,969 | 100,139 | 105,819 |
| Other (6) | - | - | - | - | - | - | - | - | - | |
| Capital outlay (8) | - | 168,418 | 189,713 | 162,154 | 173,561 | 223,779 | 220,635 | 277,754 | 270,847 | 241,050 |
| Debt service: | | | | | | | | | | |
| Principal (7) | 120,281 | 79,757 | 84,079 | 94,522 | 107,890 | 113,781 | 116,617 | 151,650 | 142,069 | 155,789 |
| Interest (7) | 70,012 | 34,134 | 33,676 | 39,246 | 46,160 | 49,037 | 50,609 | 57,673 | 60,827 | 66,222 |
| Advance refunding escrow | - | - | - | - | - | - | - | - | - | 35,189 |
| Costs of issuance of debt (10) | - | - | - | 515 | 533 | 343 | 764 | 415 | 841 | 3,797 |
| **Total expenditures** | 4,620,134 | 4,093,202 | 4,186,966 | 4,372,064 | 4,719,756 | 5,353,613 | 5,592,972 | 5,698,916 | 5,806,118 | 5,833,860 |
| **Revenues over (under) expenditures** | (371,150) | (522,985) | (439,270) | (105,335) | (297,960) | (428,873) | (458,874) | (637,765) | (765,913) | (474,854) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Other financing sources (uses)** | | | | | | | | | | |
| Transfer in | $ 969,797 | $ 337,925 | $ 477,297 | $ 415,886 | $ 409,038 | $ 374,511 | $ 402,963 | $ 491,038 | $ 470,687 | $ 970,215 |
| Transfer out | (700,731) | (71,835) | (230,744) | (173,326) | (186,194) | (151,957) | (147,411) | (158,906) | (135,219) | (634,335) |
| Other financing sources | - | - | - | - | - | - | 2,281 | 26 | - | - |
| Operating transfer out to component unit | (61,417) | - | - | - | - | - | - | - | - | - |
| Issuance of general obligation bonds | - | 159,144 | 394,474 | 327,218 | 170,559 | 132,000 | 383,133 | 217,375 | 236,000 | 645,130 |
| Premium on bond sales | - | - | 23,864 | 22,048 | 9,788 | 4,850 | 9,661 | 10,220 | 17,044 | 66,054 |
| Payment to bond refunding agent | - | (20,764) | (177,728) | (79,882) | (50,145) | - | - | - | - | (460,580) |
| **Total other financing sources (uses)** | 207,649 | 404,470 | 487,163 | 511,944 | 353,046 | 359,404 | 650,627 | 559,753 | 588,512 | 586,484 |
| **Net change in fund balance** | $ (163,501) | $ (118,515) | $ 47,893 | $ 406,609 | $ 55,086 | $ (69,469) | $ 191,753 | $ (78,012) | $ (177,401) | $ 111,630 |
| **Debt service as a percentage of non-capital expenditures** | 4.30% | 2.99% | 3.04% | 3.29% | 3.52% | 3.29% | 3.23% | 4.02% | 3.82% | 4.90% |

**Source:**
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits), as presented in the State's Comprehensive Annual Financial Report for the applicable fiscal year.

**Notes:**
(1) Taxes include personal income taxes and business taxes.
(2) General government summarizes the expenditures of the following General Government Departments: Legislative, Executive, Technology and Information, Other Elective Offices, State, Finance, Office of Management and Budget, Agriculture, Elections, and the Advisory Council for Exceptional Citizens.
(3) Health and children's services summarizes the expenditures of the Departments of Health and Social Services, and Services for Children Youth and Their Families.
(4) Judicial and public safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Safety and Homeland Security, Fire Prevention and the Delaware National Guard.
(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.
(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001, the category "Other" was eliminated and departments were grouped with similar or related functions.
(7) The Department of Transportation, including debt service, is reported as an enterprise fund effective fiscal year 2002.
(8) Presented by department and function prior to fiscal year 2002.
(9) Reclassification of expenses in fiscal year 2002 due to GASB Statement 34.
(10) Cost of issuance of debt reported as an expense effective fiscal year 2004.

**STATE OF DELAWARE**
**Fund Balances, Governmental Funds**
**Last Ten Fiscal Years**
(Modified accrual basis of accounting, expressed in thousands)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **General fund** | | | | | | | | | | |
| Reserved | $ 315,386 | $ 341,391 | $ 305,592 | $ 286,755 | $ 314,533 | $ 331,388 | $ 383,719 | $ 369,058 | $ 311,745 | $ 352,732 |
| Unreserved | 447,175 | 580,248 | 643,461 | 929,157 | 999,231 | 1,039,370 | 956,073 | 856,479 | 744,435 | 843,635 |
| **Total general fund** | $ 762,561 | $ 921,639 | $ 949,053 | $ 1,215,912 | $ 1,313,764 | $ 1,370,758 | $ 1,339,792 | $ 1,225,537 | $ 1,056,180 | $ 1,196,367 |
| **All other governmental funds:** | | | | | | | | | | |
| Reserved | $ 121,893 | $ 125,936 | $ 129,226 | $ 178,201 | $ 156,212 | $ 196,502 | $ 224,018 | $ 189,794 | $ 176,122 | $ 12,202 |
| Unreserved, reported in: | | | | | | | | | | |
| Federal fund | 8,268 | (33,705) | (47,878) | (43,422) | (40,172) | (60,841) | (41,060) | 14,000 | (15,916) | (48,405) |
| Local school district fund | 114,232 | 110,560 | 101,445 | 101,361 | 101,052 | 74,206 | 106,083 | 168,077 | 213,160 | 296,171 |
| Capital projects fund | 72,499 | (189,822) | (149,345) | (62,942) | (86,660) | (205,898) | (62,353) | (108,940) | (118,479) | (33,638) |
| Debt service fund | 107,904 | - | - | - | - | - | - | - | - | |
| **Total all other governmental funds** | $ 424,796 | $ 12,969 | $ 33,448 | $ 173,198 | $ 130,432 | $ 3,969 | $ 226,688 | $ 262,931 | $ 254,887 | $ 226,330 |

**Source:**
Combined Balance Sheet, as presented in the State's Comprehensive Annual Financial Report for the applicable fiscal year.

**Note:**
The State changed its fund structure when it implemented GASB Statement No. 34 in fiscal year 2002. Prior to fiscal year 2002, the State considered federal and local school district funds to be special revenue funds.

**STATE OF DELAWARE**
**Personal Income by Industry**
**Last Ten Calendar Years**
(Expressed in Millions)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Earnings by industry** | | | | | | | | | | |
| Farm earnings | | | | | | | | | | |
| Farm | $ 226.0 | $ 105.0 | $ 196.0 | $ 254.0 | $ 286.0 | $ 221.0 | $ 224.0 | $ 98.0 | $ 176.0 | $ 195.0 |
| Non-farm earnings | | | | | | | | | | |
| Private earnings: | | | | | | | | | | |
| Accommodation and food services | $ 565.0 | $ 591.0 | $ 624.0 | $ 683.0 | $ 690.0 | $ 743.0 | $ 795.0 | $ 750.0 | $ 751.0 | $ 789.0 |
| Administrative and waste services | 696.0 | 676.0 | 713.0 | 778.0 | 908.0 | 959.0 | 993.0 | 930.0 | 881.0 | 933.0 |
| Arts, entertainment, and recreation | 223.0 | 256.0 | 247.0 | 287.0 | 271.0 | 292.0 | 306.0 | 298.0 | 296.0 | 287.0 |
| Construction | 1,449.0 | 1,423.0 | 1,627.0 | 1,848.0 | - | 2,061.0 | 1,930.0 | 1,831.0 | 1,507.0 | 1,453.0 |
| Educational services | 192.0 | 214.0 | 220.0 | 269.0 | 275.0 | 282.0 | 296.0 | 318.0 | 323.0 | 332.0 |
| Finance and insurance | 3,720.0 | 3,161.0 | 3,237.0 | 3,827.0 | 5,393.0 | 3,815.0 | 3,664.0 | 3,635.0 | 3,610.0 | 3,592.0 |
| Forestry, fishing, and related activities | - | 15.0 | 18.0 | 17.0 | 23.0 | 17.0 | 17.0 | - | - | - |
| Health care and social assistance | 2,047.0 | 2,197.0 | 2,345.0 | 2,634.0 | 2,761.0 | 2,864.0 | 3,138.0 | 3,353.0 | 3,463.0 | 3,506.0 |
| Information | 514.0 | 457.0 | 474.0 | 482.0 | 483.0 | 520.0 | 547.0 | 548.0 | 515.0 | 508.0 |
| Management of companies and enterprises | 974.0 | 1,010.0 | 934.0 | 957.0 | 930.0 | 1,080.0 | 1,107.0 | 1,278.0 | 1,057.0 | 1,127.0 |
| Manufacturing, durable and non-durable | 2,253.0 | 2,319.0 | 2,628.0 | 2,407.0 | 2,428.0 | 2,571.0 | 2,888.0 | 2,436.0 | 2,146.0 | 2,097.0 |
| Mining | - | 14.0 | 15.0 | 19.0 | - | 25.0 | 22.0 | - | - | - |
| Professional, scientific, and technical services | 2,416.0 | 2,420.0 | 2,567.0 | 2,822.0 | 2,681.0 | 2,860.0 | 2,992.0 | 3,099.0 | 2,993.0 | 3,069.0 |
| Real estate and rental and leasing | 358.0 | 383.0 | 370.0 | 483.0 | 466.0 | 476.0 | 414.0 | 442.0 | 409.0 | 395.0 |
| Trade, retail | 1,459.0 | 1,519.0 | 1,629.0 | 1,699.0 | 1,758.0 | 1,806.0 | 1,842.0 | 1,704.0 | 1,693.0 | 1,691.0 |
| Trade, wholesale | 898.0 | 982.0 | 1,081.0 | 1,187.0 | 1,233.0 | 1,287.0 | 1,349.0 | 1,282.0 | 1,186.0 | 1,267.0 |
| Transportation and warehousing | 493.0 | 490.0 | 530.0 | 611.0 | 634.0 | 637.0 | 642.0 | 644.0 | 610.0 | 607.0 |
| Utilities | 248.0 | 250.0 | 235.0 | 241.0 | 246.0 | 253.0 | 241.0 | 270.0 | 276.0 | 264.0 |
| Other services, except public administration | 656.0 | 816.0 | 819.0 | 863.0 | 906.0 | 959.0 | 995.0 | 970.0 | 958.0 | 972.0 |
| **Total private earnings** | $ 19,161.0 | $ 19,193.0 | $ 20,313.0 | $ 22,114.0 | $ 22,086.0 | $ 23,507.0 | $ 24,178.0 | $ 23,788.0 | $ 22,674.0 | $ 22,889.0 |
| Government and government enterprises: | | | | | | | | | | |
| Federal, civilian | $ 371.0 | $ 371.0 | $ 378.0 | $ 413.0 | $ 420.0 | $ 446.0 | $ 493.0 | $ 556.0 | $ 504.0 | $ 534.0 |
| Military | 299.0 | 380.0 | 422.0 | 451.0 | 448.0 | 440.0 | 465.0 | 513.0 | 561.0 | 585.0 |
| State and local government | 2,289.0 | 2,599.0 | 2,669.0 | 2,871.0 | 2,913.0 | 3,203.0 | 3,293.0 | 3,356.0 | 3,497.0 | 3,429.0 |
| **Total government enterprises** | $ 2,959.0 | $ 3,350.0 | $ 3,469.0 | $ 3,735.0 | $ 3,781.0 | $ 4,089.0 | $ 4,251.0 | $ 4,425.0 | $ 4,562.0 | $ 4,548.0 |
| **Total non-farm earnings** | $ 22,120.0 | $ 22,543.0 | $ 23,782.0 | $ 25,849.0 | $ 25,867.0 | $ 27,596.0 | $ 28,429.0 | $ 28,213.0 | $ 27,236.0 | $ 27,437.0 |
| **Total earnings by industry** | $ 22,346.0 | $ 22,648.0 | $ 23,978.0 | $ 26,103.0 | $ 26,153.0 | $ 27,817.0 | $ 28,653.0 | $ 28,311.0 | $ 27,412.0 | $ 27,632.0 |
| Less: contributions for government social insurance (1) | $ (2,371.0) | $ (2,373.0) | $ (2,531.0) | $ (2,760.0) | $ (2,964.0) | $ (3,013.0) | $ (3,106.0) | $ (3,197.0) | $ (3,101.0) | $ (3,151.0) |
| Plus: adjustment for residence (2) | (1,937.0) | (1,824.0) | (1,978.0) | (2,177.0) | (2,547.0) | (2,234.0) | (2,258.0) | (2,096.0) | (1,901.0) | (1,913.0) |
| Plus: dividends, interest and rent (3) | 4,649.0 | 4,756.0 | 4,721.0 | 5,172.0 | 5,066.0 | 5,994.0 | 6,411.0 | 6,730.0 | 6,233.0 | 6,323.0 |
| Plus: personal current transfer receipts (4) | 3,472.0 | 3,690.0 | 3,962.0 | 4,278.0 | 4,608.0 | 5,021.0 | 5,441.0 | 5,993.0 | 6,742.0 | 7,092.0 |
| **Total personal income** | $ 26,159.0 | $ 26,897.0 | $ 28,152.0 | $ 30,616.0 | $ 30,316.0 | $ 33,585.0 | $ 35,141.0 | $ 35,741.0 | $ 35,385.0 | $ 35,983.0 |

**Source:**
Personal income by major source and earnings by industry is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov/regional/spi) through estimates released October 2009.

**Notes:**

(1) Contributions for government social insurance are included in earnings by type and industry, but they are excluded from personal income.

(2) The adjustment for residence is the net inflow of the earnings of interarea commuters. For the United States, it consists of adjustments for border workers: wage and salary disbursements to U.S. residents commuting to Canada less wage and salary disbursements to Canadian and Mexican residents commuting into the United States.

(3) Rental income of persons includes the capital consumption adjustment.

(4) This component of personal income is payments to persons for which no current services are performed. It consists of payments to individuals and to nonprofit institutions by federal, state, and local governments and by businesses. Government payments to individuals includes retirement and disability insurance benefits, medical payments (mainly Medicare and Medicaid), income maintenance benefits, unemployment insurance benefits, veterans' benefits, and federal grants and loans to students. Government payments to nonprofit institutions excludes payments by the federal government for work under research and development contracts. Business payments to persons consists primarily of liability payments for personal injury and of corporate gifts to nonprofit institutions.

**STATE OF DELAWARE**
**Personal Income Tax Rates**
**Last Ten Calendar Years**
(Expressed in Millions)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Personal income tax revenue (1) | $718.3 | $713.8 | $711.3 | $782.4 | $878.2 | $1,013.2 | $1,012.7 | $1,008.5 | $914.5 | $743.8 |
| Personal income (2) | $25,750.0 | $26,694.5 | $27,586.2 | $29,520.6 | $31,077.2 | $33,307.0 | $34,536.6 | $35,376.9 | $35,243.2 | $36,035.0 |
| Average effective rate (3) | 2.79% | 2.67% | 2.58% | 2.65% | 2.83% | 3.04% | 2.93% | 2.85% | 2.59% | 2.06% |

**Personal Income Tax Rates (4)**

| Tax Year | Taxable Income | Tax Liability | Plus | On Taxable Income Over |
|---|---|---|---|---|
| 2001-2009 | $60,000 and higher | $2,943.50 | 5.95% | $60,000 |
| | $25,000 - $59,999 | $1,001.00 | 5.55% | $25,000 |
| | $20,000 - $24,999 | $741.50 | 5.20% | $20,000 |
| | $10,000 - $19,999 | $261.50 | 4.80% | $10,000 |
| | $5,000 - $9,999 | $66.00 | 3.90% | $5,000 |
| | $2,000 - $4,999 | $0.00 | 2.20% | $2,000 |
| | $1,999 and lower | $0.00 | 0.00% | $0 |

| Tax Year | Taxable Income | Tax Liability | Plus | On Taxable Income Over |
|---|---|---|---|---|
| 2010 | $60,000 and higher | $2,943.50 | 6.95% | $60,000 |
| | $25,000 - $59,999 | $1,001.00 | 5.55% | $25,000 |
| | $20,000 - $24,999 | $741.50 | 5.20% | $20,000 |
| | $10,000 - $19,999 | $261.50 | 4.80% | $10,000 |
| | $5,000 - $9,999 | $66.00 | 3.90% | $5,000 |
| | $2,000 - $4,999 | $0.00 | 2.20% | $2,000 |
| | $1,999 and lower | $0.00 | 0.00% | $0 |

As an example, for tax year 2010, a taxable income over $60,000, pays a tax of $2,943.50 plus 6.95% of the taxable income in excess of $60,000.

**Sources:**
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits), as presented in the State's Comprehensive Annual Financial Report for the applicable fiscal year.
Personal income is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov/regional/spi) through estimates released October 2009.
Delaware Department of Finance Fiscal Notebook

**Notes:**
(1) Personal income tax revenue is net of refunds, on a cash basis, for the fiscal year.
(2) Personal income is reported on a calendar basis.
(3) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue divided by personal income.
(4) The tax rate table is used to determine gross liability. Amounts shown are for all filing status returns.

# STATE OF DELAWARE
## Personal Income Tax Filers and Liability by Income Level
## Calendar Year 2008 and Ten Years Prior

| | | Tax Year 1998 | | | | | | Tax Year 2008 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Delaware AGI | | Liability Net of Credits | | | Delaware AGI | | | Liability Net of Credits | |
| Taxpayer Percentile | | Number of Filers | Average DE AGI | Percentage of Total | Total Liability | Percentage of Total | Number of Filers | Average DE AGI | Percentage of Total(1) | Total Liability | Percentage of Total |
| From: | To: | | | | | | | | | | |
| 0 | 10 | 44,558 | 3,269 | 0.8% | 0.00% | 0.0% | 49,930 | 3,873 | 0.7% | 76,046 | 0.0% |
| 10 | 20 | 44,558 | 8,151 | 2.1% | 477,835 | 0.1% | 49,930 | 10,428 | 2.0% | 1,877,128 | 0.2% |
| 20 | 30 | 44,558 | 13,168 | 3.4% | 9,129,924 | 1.3% | 49,930 | 17,050 | 3.3% | 8,427,591 | 1.0% |
| 30 | 40 | 44,558 | 18,225 | 4.7% | 20,465,811 | 2.8% | 49,931 | 23,785 | 4.6% | 18,644,272 | 2.2% |
| 40 | 50 | 44,559 | 23,425 | 6.0% | 31,606,969 | 4.3% | 49,931 | 30,607 | 5.9% | 33,150,946 | 3.9% |
| 50 | 60 | 44,558 | 29,029 | 7.5% | 44,282,444 | 6.1% | 49,930 | 38,152 | 7.3% | 50,319,951 | 5.9% |
| 60 | 70 | 44,558 | 35,654 | 9.2% | 59,352,473 | 8.1% | 49,930 | 47,201 | 9.1% | 69,376,333 | 8.1% |
| 70 | 80 | 44,558 | 44,054 | 11.3% | 78,699,770 | 10.8% | 49,930 | 59,211 | 11.4% | 93,309,566 | 10.9% |
| 80 | 90 | 44,558 | 57,616 | 14.8% | 110,569,875 | 15.2% | 49,931 | 78,950 | 15.1% | 131,966,995 | 15.4% |
| 90 | 95 | 22,280 | 80,699 | 10.4% | 83,327,504 | 11.4% | 24,966 | 111,106 | 10.7% | 101,144,946 | 11.8% |
| 95 | 99 | 17,823 | 133,533 | 13.7% | 123,575,064 | 17.0% | 19,972 | 185,894 | 14.3% | 154,499,179 | 18.0% |
| 99 | 100 | 4,457 | 626,657 | 16.1% | 167,082,284 | 22.9% | 4,994 | 820,534 | 15.7% | 195,454,016 | 22.8% |
| | | | | 100.0% | | 100.0% | | | 100.0% | | 100.0% |

Source: Delaware Division of Revenue

Notes: The number of filers is equal for each 10 percentile.
(1) Percentage of total is that of Delaware AGI by class for tax year 2008 forward.

**STATE OF DELAWARE**
**Franchise Taxes**
**Last Ten Calendar Years**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Franchise tax (in millions) | $ 533.6 | $ 492.5 | $ 448.2 | $ 515.8 | $ 508.1 | $ 524.8 | $ 539.7 | $ 566.3 | $ 574.2 | $ 633.6 |
| Number of filers | 254,538 | 240,618 | 243,564 | 240,304 | 239,106 | 239,824 | 231,376 | 233,447 | 219,808 | 214,561 |
| Average amount per filer | $ 2,096.3 | $ 2,046.8 | $ 1,840.2 | $ 2,146.4 | $ 2,125.0 | $ 2,188.3 | $ 2,332.6 | $ 2,425.8 | $ 2,609.7 | $ 2,953.0 |

| Authorized Share Method | Tax Year 2000-2002 | Tax Year 2003-2007 | Tax Year 2008 | Tax Year 2009 | Tax Year 2010 |
|---|---|---|---|---|---|
| 3,000 shares or less, minimum tax | $30.00 | $35.00 | $75.00 | $75.00 | $75.00 |
| 3,001-5,000 shares | $50.00 | $62.50 | $75.00 | $75.00 | $75.00 |
| 5,001-10,000 shares | $90.00 | $112.50 | $150.00 | $150.00 | $150.00 |
| Each additional 10,000 shares, add | $50.00 | $62.50 | $75.00 | $75.00 | $75.00 |
| Maximum yearly tax | $150,000 | $165,000 | $165,000 | $180,000 | $180,000 |

<u>Assumed Par Value Capital Method</u>

1 Calculate "assumed par" by dividing total gross assets by total issued shares carrying the decimal to six places.
2 Multiply the assumed par by the number of authorized shares having a par value less than the assumed par.
3 Multiply the number of authorized shares with a par value greater than the assumed par value by their respective value.
4 Add the results of #2 and #3 above. The result is your assumed par value capital.
5 Calculate the tax by dividing the assumed par value capital, rounded up to the next million if it is over $1,000,000 and multiply by $200.00 for tax years 2000-2002. For tax years 2003 to 2008, the multiplier is $250. Beginning tax year 2009, the multiplier increased from $250 to $350.

**Sources:**
Delaware Economic and Financial Advisory Council (DEFAC) Revenue Forecast
Delaware Secretary of State, Division of Corporations
Delaware Department of Finance Fiscal Notebook

**STATE OF DELAWARE**
**Ratios of Outstanding Debt by Type**
**Last Ten Fiscal Years**
(Expressed in Thousands)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental activities** | | | | | | | | | | |
| General obligation bonds | $ 653,701 | $ 709,958 | $ 854,262 | $ 1,012,544 | $ 1,026,947 | $ 1,045,166 | $ 1,307,487 | $ 1,373,212 | $ 1,467,143 | $ 1,495,904 |
| Revenue bonds | 515 | 408 | - | - | - | - | - | - | - | - |
| Notes payable | - | - | - | - | 4,754 | 3,746 | 4,882 | 8,563 | 3,006 | 212 |
| **Total governmental activities** | 654,216 | 710,366 | 854,262 | 1,012,544 | 1,031,701 | 1,048,912 | 1,312,369 | 1,381,775 | 1,470,149 | 1,496,116 |
| **Business-type activities** | | | | | | | | | | |
| General obligation bonds | - | - | - | - | - | - | 3,383 | 2,783 | 2,107 | 1,451 |
| Revenue bonds | 634,385 | 675,735 | 863,145 | 815,505 | 861,710 | 953,265 | 1,018,815 | 992,636 | 1,142,613 | 1,219,530 |
| Notes payable | - | - | - | - | 40,000 | - | - | - | - | - |
| **Total business-type activities** | 634,385 | 675,735 | 863,145 | 815,505 | 901,710 | 953,265 | 1,022,198 | 995,419 | 1,144,720 | 1,220,981 |
| **Total primary government** | $ 1,288,601 | $ 1,386,101 | $ 1,717,407 | $ 1,828,049 | $ 1,933,411 | $ 2,002,177 | $ 2,334,567 | $ 2,377,194 | $ 2,614,869 | $ 2,717,097 |
| **Personal income** | $25,750,027 | $26,694,744 | $27,586,196 | $29,520,592 | $31,077,231 | $33,306,984 | $34,536,652 | $35,376,923 | $35,243,169 | $36,035,000 |
| **Debt as a percentage of personal income** | 5.00% | 5.19% | 6.23% | 6.19% | 6.22% | 6.01% | 6.76% | 6.72% | 7.42% | 7.54% |
| **Population** | 795 | 806 | 818 | 830 | 844 | 853 | 864 | 873 | 855 | N/A |
| **Amount of debt per capita (expressed in thousands)** | $1,620 | $1,720 | $2,100 | $2,202 | $2,292 | $2,347 | $2,702 | $2,723 | $3,058 | N/A |

**Sources:**
Personal income is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov/regional/spi) through estimates released October 2009.
Population is provided by the Bureau of Census, U.S. Department of Commerce (http://factfinder.census/gov) through estimates released January 2009.

**Notes:**
Details regarding the State's outstanding debt can be found in the long-term liabilities note to the financial statements.

The prior year personal income amounts were updated to reflect revised U.S. Bureau of Economic Analysis estimates.

The prior year per capita amounts were updated to reflect U.S. Bureau of Census population estimates.

N/A - Data is not available at this time.

**STATE OF DELAWARE**
**Debt Limits**
**Last Ten Fiscal Years**
(Expressed in Millions)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimated general fund revenue | $ 2,348.2 | $ 2,364.5 | $ 2,364.8 | $ 2,514.0 | $ 2,765.1 | $ 3,006.4 | $ 3,274.3 | $ 3,366.1 | $ 3,147.0 | $ 3,190.7 |
| Projected new tax-supported debt authorizations (5%) | $ 117.2 | $ 118.2 | $ 118.2 | $ 125.7 | $ 138.3 | $ 150.3 | $ 163.8 | $ 168.3 | $ 157.4 | $ 160.0 |

**Source:**
Delaware 145th General Assembly, House Joint Resolution No.6

**Notes:**
There is no constitutional debt limit for the State.

In 1991, the General Assembly passed legislation to replace prior statutory debt limits with a three-part debt limit, as follows:

1 The aggregate principal amount of new "tax-supported obligations of the State" may not exceed 5% of the estimated budgetary general fund revenue for that fiscal year.

2 No "tax-supported obligations of the State" and no "Transportation Trust Fund debt obligations" of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated budgetary general fund revenue plus Transportation Trust Fund revenue for the fiscal year following the fiscal year in which such obligations is incurred (the 15% test).

3 No general obligation debt (with certain exceptions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which the obligation is incurred.

**STATE OF DELAWARE**
**General Obligation Debt Support**
**Last Nine Fiscal Years**
(Expressed in Millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **General obligation debt supported by budgetary general fund revenue** | | | | | | | | | |
| State facilities | $ 415.8 | $ 482.1 | $ 490.6 | $ 428.3 | $ 373.8 | $ 360.9 | $ 334.1 | $ 343.2 | $ 437.6 |
| School facilities (state share) | 124.3 | 124.2 | 247.1 | 260.6 | 264.8 | 464.0 | 522.5 | 608.7 | 542.0 |
| Miscellaneous | 3.4 | 4.2 | - | - | - | - | - | - | - |
| **Subtotal** | 543.5 | 610.5 | 737.7 | 688.9 | 638.6 | 824.9 | 856.6 | 951.9 | 979.6 |
| **General obligation debt supported by budgetary special fund revenue** | | | | | | | | | |
| Highway and other transportation improvements | 5.2 | 3.3 | 3.7 | 4.8 | 4.2 | 3.4 | 2.8 | 2.1 | 1.5 |
| School facilities (local share) | 158.8 | 240.2 | 270.6 | 332.6 | 401.8 | 482.1 | 516.2 | 514.9 | 516.0 |
| Housing authority loans | 2.4 | 0.3 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 |
| **Subtotal** | 166.4 | 243.8 | 274.9 | 338.0 | 406.6 | 486.0 | 519.4 | 517.4 | 517.8 |
| **Total general obligation debt outstanding** | $ 709.9 | $ 854.3 | $ 1,012.6 | $ 1,026.9 | $ 1,045.2 | $ 1,310.9 | $ 1,376.0 | $ 1,469.3 | $ 1,497.4 |
| **Population (in thousands)** | 806 | 818 | 830 | 844 | 853 | 864 | 873 | 885 | N/A |
| **Debt per capita (in thousands)** | 0.88 | 1.04 | 1.22 | 1.22 | 1.23 | 1.52 | 1.58 | 1.66 | N/A |

**Source:**
Delaware Office of the State Treasurer

**Notes:**
This table reflects the portion of general obligation debt supported by budgetary general fund and budgetary special fund revenue.

Population and Debt per capita line added to conform to GFOA comments and suggestions.

N/A - Data is not available at this time.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* , recommends, but does not require, the information in the statistical section to cover the last ten years or the period retroactive to the adoption of GASB Statement No. 34. The State implemented GASB Statement No. 34 in fiscal year 2002; therefore, ten years of data is not available, but will be accumulated over time.

**STATE OF DELAWARE**
**Pledged Revenue Coverage**
**Last Ten Fiscal Years**
(Expressed in Thousands)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue bonds - DelDOT** | | | | | | | | | | |
| Revenue - turnpike and motor vehicles | $ 299,962 | $ 297,894 | $ 298,536 | $ 314,205 | $ 324,962 | $ 337,350 | $ 346,954 | $ 381,590 | $ 367,399 | $ 363,948 |
| Debt service: | | | | | | | | | | |
| Principal | $ 35,315 | $ 39,565 | $ 41,490 | $ 47,640 | $ 53,920 | $ 58,445 | $ 61,370 | $ 67,640 | $ 73,510 | $ 74,380 |
| Interest | 37,537 | 35,269 | 44,957 | 38,176 | 39,370 | 40,573 | 45,534 | 46,210 | 43,619 | 50,885 |
| Debt service requirements | $ 72,852 | $ 74,834 | $ 86,447 | $ 85,816 | $ 93,290 | $ 99,018 | $ 106,904 | $ 113,850 | $ 117,129 | $ 125,265 |
| Coverage | 4.12 | 3.98 | 3.45 | 3.66 | 3.48 | 3.41 | 3.25 | 3.35 | 3.14 | 2.91 |
| **Revenue bonds - DSU** | | | | | | | | | | |
| Revenue - student tuition and fees | $ 28,858 | $ 32,170 | $ 34,504 | $ 39,191 | $ 43,695 | $ 50,551 | $ 51,836 | $ 56,381 | $ 57,036 | $ 59,197 |
| Less: operating expenses | (14,689) | (15,447) | (20,992) | (24,104) | (26,227) | (32,089) | (40,683) | (41,855) | (41,224) | (44,105) |
| Net available revenue | $ 14,169 | $ 16,723 | $ 13,512 | $ 15,087 | $ 17,468 | $ 18,462 | $ 11,153 | $ 14,526 | $ 15,812 | $ 15,092 |
| Debt service: | | | | | | | | | | |
| Principal | 785 | 965 | 990 | 1,653 | 1,617 | 2,078 | 1,440 | 1,480 | 1,585 | 1,710 |
| Interest | 761 | 649 | 622 | 737 | 763 | 505 | 2,279 | 2,814 | 4,381 | 3,542 |
| Debt service requirements | $ 1,546 | $ 1,614 | $ 1,612 | $ 2,390 | $ 2,380 | $ 2,583 | $ 3,719 | $ 4,294 | $ 5,966 | $ 5,252 |
| Coverage | 9.16 | 10.36 | 8.38 | 6.31 | 7.34 | 7.15 | 3.00 | 3.38 | 2.65 | 2.87 |
| **Revenue bonds - DSHA** | | | | | | | | | | |
| Gross revenues | $ 68,718 | $ 151,538 | $ 103,713 | $ 150,211 | $ 89,697 | $ 81,632 | $ 82,689 | $ 134,059 | $ 144,322 | $ 294,656 |
| Less: Operating expenses | (1,864) | (2,030) | (6,355) | (1,794) | (1,995) | (1,137) | (660) | (849) | (962) | (893) |
| Net available revenue | $ 66,854 | $ 149,508 | $ 97,358 | $ 148,417 | $ 87,702 | $ 80,495 | $ 82,029 | $ 133,210 | $ 143,360 | $ 293,763 |
| Debt service: | | | | | | | | | | |
| Principal | 42,460 | 107,463 | 66,189 | 128,665 | 73,964 | 58,956 | 51,517 | 84,578 | 79,687 | 217,757 |
| Interest * | 24,535 | 23,868 | 22,597 | 18,929 | $ 16,163 | 18,120 | 28,791 | 45,172 | 52,251 | 49,496 |
| Debt service requirements | $ 66,995 | $ 131,331 | $ 88,786 | $ 147,594 | $ 90,127 | $ 77,076 | $ 80,308 | $ 129,750 | $ 131,938 | $ 267,253 |
| Coverage | 1.00 | 1.14 | 1.10 | 1.01 | 0.97 | 1.04 | 1.02 | 1.03 | 1.09 | 1.10 |

**Sources:**
Delaware Department of Transportation
Delaware State University
Delaware State Housing Authority

**Notes:**
Gross revenues represent mortgage principal repayment, mortgage insurance claims received, unused bond proceeds and excess reserves. Expenses do not include interest or amortizatior
Abbreviations: Delaware Department of Transportation (DelDOT), Delaware State University (DSU), Delaware State Housing Authority (DSHA

Debt service for Delaware State University includes Delaware State University Student Housing Foundation beginning in years 2004 through curren

*Interest on Delaware State University Student Housing Foundation is a variable rate. In 2007, the increase in interest is reflective in interest rates due to the marke

**STATE OF DELAWARE**
**Demographic and Economic Statistics**
**Last Ten Calendar Years**
(Expressed in Thousands, unless otherwise stated)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Population** | | | | | | | | | | |
| State | 786 | 796 | 806 | 818 | 830 | 844 | 853 | 864 | 873 | 885 |
| Percentage change | 1.4% | 1.3% | 1.3% | 1.5% | 1.5% | 1.7% | 1.1% | 1.3% | 1.0% | 1.4% |
| National | 282,193 | 285,108 | 287,985 | 290,850 | 293,657 | 296,410 | 299,398 | 301,621 | 304,060 | 307,007 |
| Percentage change | 1.1% | 1.0% | 1.0% | 1.0% | 1.0% | 0.9% | 1.0% | 0.7% | 0.8% | 1.0% |
| **Total personal income** | | | | | | | | | | |
| State (in millions) | $24,277.0 | $25,492.4 | $26,529.9 | $27,140.1 | $29,330.9 | $29,010.2 | $32,947.1 | $34,574.7 | $35,667.4 | $35,360.0 |
| Percentage change | 7.8% | 5.0% | 4.1% | 2.3% | 8.1% | -1.1% | 13.6% | 4.9% | 3.2% | -0.9% |
| National (in billions) | $8,555 | $8,879 | $9,055 | $9,369 | $9,929 | $10,477 | $11,257 | $11,880 | $12,226 | $12,165 |
| Percentage change | 8.2% | 3.8% | 2.0% | 3.5% | 6.0% | 5.5% | 7.4% | 5.5% | 2.9% | -0.5% |
| **Per capita personal income** | | | | | | | | | | |
| State | $30,871 | $32,142 | $33,007 | $33,644 | $35,523 | $36,793 | $38,745 | $40,112 | $40,852 | $39,949 |
| Percentage change | 6.2% | 4.1% | 2.7% | 1.9% | 5.6% | 3.6% | 5.3% | 3.5% | 1.8% | -2.2% |
| National | $30,318 | $31,149 | $31,470 | $32,284 | $33,899 | $35,447 | $37,728 | $39,430 | $40,208 | $39,626 |
| Percentage change | 7.0% | 2.7% | 1.0% | 2.6% | 5.0% | 4.6% | 6.4% | 4.5% | 2.0% | -1.4% |
| **Resident civilian labor force and employment** | | | | | | | | | | |
| Civilian labor force | 416,500 | 418,700 | 420,500 | 424,500 | 428,900 | 438,000 | 440,300 | 442,700 | 442,902 | 434,704 |
| Employed | 402,800 | 404,100 | 403,800 | 406,700 | 411,600 | 419,500 | 424,500 | 427,800 | 421,838 | 399,669 |
| Unemployed | 13,700 | 14,600 | 16,700 | 17,800 | 17,300 | 18,500 | 15,800 | 14,900 | 21,064 | 35,035 |
| Unemployment rate | 3.3% | 3.5% | 4.0% | 4.2% | 4.0% | 4.2% | 3.6% | 3.4% | 4.8% | 8.1% |

**Sources:**
Population is provided by the Bureau of Census, U.S. Department of Commerce (http://factfinder.census/gov) through estimates released January 2009
Personal income is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov/regional/spi) SA05N through estimates released October 2009
Delaware Department of Labor, Office of Occupational and Labor Market Information

**Notes:**
Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments

Per capita income is calculated by dividing personal income by population; amounts may not be exact due to rounding

Numbers for prior years revised due to releases of updated data by the U.S. Bureau of the Census.

**STATE OF DELAWARE**
**Principal Employers by Industry**
**Last Ten Calendar Years**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Number of employees by industry** | | | | | | | | | | |
| Farm compensation | | | | | | | | | | |
| Farm | 4,252 | 4,036 | 3,806 | 3,379 | 3,254 | 3,162 | 3,138 | 3,210 | 3,046 | 3,014 |
| Non-farm compensation | | | | | | | | | | |
| Private compensation: | | | | | | | | | | |
| Accomodation and food services | 30,098 | 30,358 | 30,878 | 31,513 | 33,043 | 33,601 | 34,079 | 34,643 | 35,219 | 35,075 |
| Administrative and waste services | 31,451 | 29,704 | 26,827 | 26,612 | 27,659 | 28,205 | 29,522 | 29,869 | 29,396 | 27,498 |
| Arts, entertainment, and recreation | 11,822 | 10,932 | 11,991 | 12,367 | 12,664 | 12,951 | 13,103 | 12,871 | 13,147 | 12,919 |
| Construction | 32,698 | 32,111 | 32,253 | 33,240 | 36,124 | 34,739 | 40,574 | 38,877 | 37,088 | 30,288 |
| Educational services | 6,836 | 7,218 | 7,786 | 7,857 | 8,069 | 8,612 | 9,202 | 9,386 | 9,661 | 9,328 |
| Finance and insurance | 44,427 | 48,174 | 48,539 | 46,733 | 46,282 | 48,453 | 47,531 | 48,733 | 50,529 | 51,845 |
| Forestry, fishing, and related activities | 1,250 | 684 | 949 | 805 | 841 | 853 | 833 | 877 | 868 | - |
| Health care and social assistance | 45,830 | 46,623 | 47,890 | 49,659 | 51,085 | 52,801 | 54,539 | 56,953 | 59,440 | 62,512 |
| Information | 8,961 | 8,820 | 7,845 | 7,727 | 7,363 | 7,623 | 7,781 | 7,987 | 8,142 | 7,526 |
| Management of companies and enterprises | 11,165 | 12,387 | 12,632 | 12,010 | 13,149 | 13,150 | 12,698 | 12,050 | 11,362 | 10,719 |
| Manufacturing, durable and non-durable | 43,243 | 40,076 | 37,754 | 36,390 | 35,430 | 34,022 | 34,204 | 34,176 | 32,740 | 28,837 |
| Mining | 242 | - | 211 | 239 | 228 | 21 | 189 | 211 | 173 | - |
| Professional, scientific, and technical services | 35,279 | 34,563 | 33,080 | 34,140 | 35,792 | 33,848 | 34,181 | 35,589 | 36,690 | 34,613 |
| Real estate and rental and leasing | 15,940 | 15,745 | 16,532 | 17,991 | 19,864 | 22,205 | 23,404 | 25,092 | 27,053 | 24,058 |
| Trade, retail | 60,643 | 58,132 | 59,093 | 60,248 | 60,970 | 62,298 | 62,972 | 63,871 | 62,579 | 58,364 |
| Trade, wholesale | 14,620 | 14,291 | 14,467 | 15,071 | 15,805 | 16,041 | 16,345 | 16,175 | 15,997 | 14,564 |
| Transportation and warehousing | 12,015 | 12,194 | 12,187 | 12,249 | 13,394 | 13,145 | 13,823 | 14,245 | 14,197 | 12,641 |
| Utilities | 2,364 | 2,269 | 2,233 | 2,228 | 2,232 | 2,231 | 2,231 | 2,193 | 2,278 | 2,220 |
| Other services, except public administration | 24,205 | 24,646 | 26,927 | 27,752 | 28,822 | 30,001 | 30,466 | 31,068 | 31,782 | 30,090 |
| **Total private employment** | 433,089 | 428,927 | 430,074 | 434,831 | 448,816 | 454,800 | 467,677 | 474,866 | 478,341 | 453,097 |
| Government and government enterprises: | | | | | | | | | | |
| Federal, civilian | 5,796 | 5,441 | 5,342 | 5,370 | 5,426 | 5,430 | 5,383 | 5,532 | 5,673 | 5,723 |
| Military | 8,719 | 9,005 | 9,262 | 9,396 | 9,033 | 8,422 | 8,032 | 8,275 | 8,378 | 8,464 |
| State government | 29,561 | 30,120 | 30,580 | 30,378 | 29,987 | 30,559 | 31,742 | 31,922 | 32,302 | 32,823 |
| Local government | 22,150 | 22,324 | 22,158 | 22,524 | 22,996 | 23,867 | 24,427 | 24,761 | 25,263 | 24,802 |
| **Total government employment** | 66,226 | 66,890 | 67,342 | 67,668 | 67,442 | 68,278 | 69,584 | 70,490 | 71,616 | 71,812 |
| **Total non-farm employment** | 499,315 | 495,817 | 497,416 | 502,499 | 516,258 | 523,078 | 537,261 | 545,356 | 549,957 | 524,909 |
| **Total employment** | 503,567 | 499,853 | 501,222 | 505,878 | 519,512 | 526,240 | 540,399 | 548,566 | 553,003 | 527,923 |

**Source:**
Number of employees by industry is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov/regional/spi) through estimates released October 2009.

**Notes:**
Due to statutory requirements (confidentiality provisions), the State can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the State Department of Labor.

## STATE OF DELAWARE
**State Employees by Function**
**Last Nine Fiscal Years**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Full-Time Employees** | | | | | | | | | |
| General government | 1,868 | 1,850 | 1,885 | 1,956 | 1,989 | 2,162 | 2,170 | 2,201 | 1,971 |
| Health and children's services | 5,895 | 5,536 | 5,552 | 5,770 | 5,888 | 6,000 | 6,113 | 5,761 | 5,031 |
| Judicial and public safety | 5,433 | 5,133 | 5,121 | 5,164 | 5,325 | 5,517 | 5,849 | 5,496 | 5,401 |
| Natural resources and environmental control | 1,200 | 1,174 | 1,221 | 1,238 | 1,293 | 1,348 | 855 | 1,302 | 713 |
| Labor | 469 | 455 | 470 | 457 | 426 | 439 | 516 | 454 | 1,716 |
| Transportation | 1,618 | 1,793 | 1,839 | 1,950 | 1,997 | 1,994 | 1,843 | 1,997 | 445 |
| Education | 15,075 | 15,259 | 15,538 | 15,940 | 16,493 | 16,555 | 16,655 | 16,530 | 16,753 |
| State total | 31,558 | 31,200 | 31,626 | 32,475 | 33,411 | 34,015 | 34,001 | 33,741 | 32,030 |

**Source:**
Delaware Payroll Human Resources Statewide Technology System

**Note:**
Includes employees of Local School Districts, but not those of Charter Schools

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* , recommends, but does not require, the information in the statistical section to cover the last ten years or the period retroactive to the adoption of GASB Statement No. 34. The State implemented GASB Statement No. 34 in fiscal year 2002; therefore, ten years of data is not available, but will be accumulated over time.

**STATE OF DELAWARE**
**Operating Indicators by Function**
**Last Eight Fiscal Years**

| Department/Agency | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| **Children, Youth and Their Families** | | | | | | | | |
| Number of youths in care | 7,949 | 8,130 | 7,885 | 8,882 | 9,129 | 8,115 | 7,532 | 22,539 |
| **Corrections** | | | | | | | | |
| Average Daily Inmate Population | 6,568 | 6,672 | 6,655 | 6,837 | 7,088 | 7,156 | 7,018 | 6,727 |
| **Department of Natural Resources and Environmental Contro** | | | | | | | | |
| Number of visitors to State Parks | N/A | N/A | 5,341,852 | 4,556,931 | 5,513,777 | 4,812,961 | 4,650,000 | 4,789,780 |
| **Education** | | | | | | | | |
| Public School Enrollment, Grades K-12 | 116,288 | 117,777 | 119,109 | 120,491 | 121,856 | 123,615 | 125,430 | 128,503 |
| Delaware State University - Students enrolled | 3,367 | 3,270 | 3,270 | 3,722 | 3,690 | 3,756 | 3,534 | 3,819 |
| Delaware Technical & Community College - enrolled | 17,501 | 18,783 | 19,462 | 19,593 | 19,565 | 20,349 | 20,484 | 21,352 |
| **Health and Social Services** | | | | | | | | |
| Medicaid eligibles | 118,775 | 130,411 | 136,885 | 142,515 | 143,386 | 148,827 | 156,266 | 173,769 |
| Prescription assistance program | 5,150 | 5,837 | 6,609 | 9,065 | 8,515 | 7,003 | 6,267 | 5,995 |
| Childcare caseloads | 13,334 | 13,813 | 13,926 | 14,769 | 15,039 | 14,009 | 13,549 | 13,696 |
| Client visits to Service Centers | 610,190 | 538,503 | 612,170 | 406,487 | 441,196 | 452,554 | 605,991 | 686,606 |
| **Judicial** | | | | | | | | |
| Court of Common Pleas - filings | 82,719 | 87,834 | 85,867 | 90,964 | 99,345 | 128,372 | 136,631 | 140,139 |
| Superior Court - civil case filings | 10,696 | 10,922 | 10,878 | 11,041 | 12,869 | 13,177 | 14,137 | 15,060 |
| **Labor** | | | | | | | | |
| Workers' compensations petitions filed | 6,609 | 7,031 | 7,488 | 7,619 | 7,414 | 7,545 | 8,196 | 7,641 |
| **Safety and Homeland Security** | | | | | | | | |
| Number of criminal histories requested | 29,027 | 29,770 | 38,382 | 35,263 | 37,321 | 38,289 | 37,384 | 39,627 |
| Calls to 911 centers | 209,388 | 617,769 | 346,044 | 605,194 | 395,701 | 434,562 | 596,691 | 263,424 |
| **Transportation** | | | | | | | | |
| Licensed drivers | 591,713 | 604,124 | 614,410 | 619,877 | 622,027 | 632,304 | 636,580 | 644,014 |
| Registered motor vehicles | 778,016 | 803,942 | 821,716 | 847,692 | 862,473 | 871,010 | 845,802 | 832,661 |
| Bus ridership - fixed routes | 7,493,214 | 7,792,570 | 8,052,452 | 8,472,093 | 8,313,800 | 8,628,149 | 9,146,869 | 9,218,232 |
| Train ridership - Newark to Philadelphia | 732,210 | 783,663 | 838,578 | 974,890 | 1,028,631 | 1,073,296 | 1,137,709 | 1,106,742 |

**Sources:**
Delaware Department of Services for Children Youth & Their Families
Delaware Department of Corrections
Delaware Department of Education
Delaware State University
Delaware Technical & Community College
Delaware Department of Health & Social Services
Delaware Judicial Department
Delaware Department of Labor
Delaware State Police
Delaware Department of Transportation

**Notes:**
Licensed drivers and registered motor vehicles are tracked on a calendar year.

N/A - Data is not available at this time.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* , recommends, but does not require, the information in the statistical section to cover the last ten years or the period retroactive to the adoption of GASB Statement No. 34. The State implemented GASB Statement No. 34 in fiscal year 2002; therefore, ten years of data is not available, but will be accumulated over time.

**STATE OF DELAWARE**
**Capital Asset Statistics by Function**
**Last Eight Fiscal Years**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| **General Government** | | | | | | | | |
| Acres of farmland permanently preserved | 5,886 | 5,360 | 2,770 | 3,216 | 1,094 | 2,948 | 2,896 | 4,487 |
| **Health and Children's Services** | | | | | | | | |
| Hospitals | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 |
| Service centers | 14 | 14 | 14 | 14 | 14 | 15 | 15 | 15 |
| **Natural Resources and Environmental Control** | | | | | | | | |
| Acres of wildlife habitat actively managed | 6,817 | 6,910 | 7,250 | 7,975 | 8,911 | 8,150 | 8,557 | 8,500 |
| **Transportation** | | | | | | | | |
| Centerline miles | 4,464 | 4,464 | 4,453 | 4,454 | 4,454 | 4,447 | N/A | N/A |
| Centerline miles rated good | 3,459 | 3,296 | 3,070 | 3,055 | 3,071 | 3,007 | N/A | N/A |
| Number of bridges | 1,360 | 1,371 | 1,374 | 1,417 | 1,457 | 1,509 | 1,556 | N/A |
| Structural rating of good | 1,012 | 1,029 | 1,048 | 1,112 | 1,131 | 1,118 | 1,144 | N/A |
| Square feet of bridge deck | 7,145,202 | 7,163,000 | 7,241,809 | 7,267,932 | 7,289,913 | 7,311,730 | 7,330,395 | N/A |
| Square feet of bridge deck rated good | 6,932,464 | 6,731,463 | 6,808,227 | 6,860,141 | 6,809,939 | 6,799,842 | 6,800,531 | N/A |
| **National Guard** | | | | | | | | |
| Number of armory facilities | 15 | 14 | 14 | 14 | 14 | 13 | 12 | 12 |
| **Education** | | | | | | | | |
| Local school districts | | | | | | | | |
| Number of elementary schools | 101 | 102 | 102 | 105 | 105 | 108 | 102 | 100 |
| Number of middle schools | 31 | 33 | 33 | 35 | 35 | 36 | 38 | 40 |
| Number of high schools | 29 | 29 | 31 | 33 | 33 | 32 | 31 | 31 |
| Number of special schools | 14 | 14 | 14 | 14 | 14 | 14 | 13 | 13 |
| Number of administration buildings | 19 | 19 | 19 | 19 | 19 | 19 | 20 | 22 |

**Source:**
Delaware Department of Agriculture
Delaware Office of Management and Budget
Delaware Department of Transportation
Delaware National Guard

**Notes:**
N/A - Data is not available at this time.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* , recommends, but does not require, the information in the statistical section to cover the last ten years or the period retroactive to the adoption of GASB Statement No. 34. The State implemented GASB Statement No. 34 in fiscal year 2002; therefore, ten years of data is not available, but will be accumulated over time.

**STATE OF DELAWARE**
**Capital Asset Balances by Function**
**Last Ten Fiscal Years**
(Expressed in Thousands)

| Function | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Buildings** | | | | | | | | | | |
| General Government | $ 399,497 | $ 163,140 | $ 332,079 | $ 344,179 | $ 373,127 | $ 405,941 | $ 444,439 | $ 460,711 | $ 459,906 | $ 468,958 |
| Health and Children's Services | 64,363 | 61,733 | 29,329 | 123,800 | 145,342 | 149,535 | 151,888 | 158,691 | 190,450 | 188,454 |
| Judicial and Public Safety | 193,957 | 181,777 | 311,261 | 349,902 | 350,393 | 353,106 | 353,315 | 358,662 | 359,135 | 371,690 |
| Natural Resources and Environmental Control | 3,851 | 4,032 | 6,180 | 6,521 | 7,522 | 10,892 | 23,773 | 27,538 | 29,149 | 38,750 |
| Transportation | 56,332 | 50,658 | 51,971 | 53,415 | 60,820 | 54,857 | 55,051 | 77,471 | 89,564 | 91,065 |
| Education | 576,096 | 615,108 | 758,520 | 946,668 | 1,162,450 | 1,251,807 | 1,479,998 | 1,705,323 | 1,890,709 | 2,093,349 |
| Total Buildings | $ 1,294,096 | $ 1,076,448 | $ 1,489,340 | $ 1,824,485 | $ 2,099,654 | $ 2,226,138 | $ 2,508,464 | $ 2,788,396 | $ 3,018,913 | $ 3,252,266 |
| **Land and Land Improvements** | | | | | | | | | | |
| General Government | $ 44,486 | $ 110,247 | $ 113,283 | $ 139,444 | $ 171,809 | $ 184,916 | $ 211,040 | $ 252,200 | $ 274,853 | $ 289,265 |
| Health and Children's Services | 3,333 | 2,436 | 753 | 3,894 | 10,282 | 10,620 | 11,469 | 11,993 | 13,667 | 13,518 |
| Judicial and Public Safety | 14,358 | 13,454 | 11,430 | 22,502 | 25,521 | 25,521 | 26,102 | 25,971 | 25,971 | 25,987 |
| Natural Resources and Environmental Control | 184,224 | 192,378 | 213,635 | 239,717 | 263,703 | 284,814 | 300,525 | 309,158 | 323,370 | 371,079 |
| Transportation | 13,949 | 11,230 | 11,230 | 113,673 | 164,703 | 211,272 | 206,411 | 222,986 | 249,775 | 276,761 |
| Education | 33,158 | 45,219 | 47,775 | 47,214 | 60,491 | 64,374 | 75,910 | 84,728 | 100,968 | 110,825 |
| Total Land and Land Improvements | $ 293,508 | $ 374,964 | $ 398,106 | $ 566,444 | $ 696,509 | $ 781,517 | $ 831,457 | $ 907,036 | $ 988,604 | $ 1,087,435 |
| **Equipment and Vehicles** | | | | | | | | | | |
| General Government | $ 27,073 | $ 25,442 | $ 25,947 | $ 32,084 | $ 36,248 | $ 38,801 | $ 33,825 | $ 34,380 | $ 26,339 | $ 25,826 |
| Health and Children's Services | 11,517 | 12,614 | 6,065 | 14,385 | 13,740 | 14,639 | 18,209 | 19,684 | 20,876 | 17,486 |
| Judicial and Public Safety | 26,871 | 27,087 | 29,457 | 31,693 | 33,825 | 33,761 | 37,183 | 34,091 | 33,488 | 31,573 |
| Natural Resources and Environmental Control | 12,173 | 12,673 | 14,005 | 15,467 | 18,445 | 19,963 | 21,035 | 21,500 | 21,412 | 22,021 |
| Transportation | 130,930 | 143,377 | 152,567 | 149,831 | 158,779 | 161,945 | 179,466 | 218,606 | 220,630 | 237,416 |
| Labor | 830 | 807 | 807 | 715 | 730 | 712 | 875 | 875 | 806 | 862 |
| Education | 54,362 | 46,430 | 43,325 | 46,326 | 50,422 | 49,955 | 56,486 | 60,185 | 63,787 | 62,990 |
| Total Equipment and Vehicles | $ 263,756 | $ 268,430 | $ 272,173 | $ 290,501 | $ 312,189 | $ 319,776 | $ 347,079 | $ 389,321 | $ 387,338 | $ 398,174 |
| **Infrastructure** | | | | | | | | | | |
| Transportation (1) | | $ 3,201,814 | $ 3,226,811 | $ 3,157,072 | $ 3,201,817 | $ 3,255,998 | $ 3,283,783 | $ 3,345,399 | $ 3,385,364 | $ 3,432,677 |

**Source:**
Delaware Department of Finance

**Notes:**

(1) Reflects changes as a result of GASB Statement No. 34.

Information regarding Infrastructure can be found in the Required Supplementary Information contained on page 128. Information is given as to the number of bridges and their condition as well as the center-lane miles and their condition for the past three years. The State preserves farmland under the Department of Agriculture which is part of General Government. In addition, land is preserved as park land under the Department of Natural Resources and Environmental Control. Other land is used for functional purposes of the department, including housing building to perform the Department's function.

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# STATE OF DELAWARE COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2010

DOC.ID# 25-05-10-09-01

**Appendix D**

## Definitions and Summaries of Indenture and Project Documents

### Definitions of Certain Terms

**Additional Bonds** means any series of Bonds, other than the Series 2011 Bonds, authenticated and delivered under the Indenture.

**Administrative Expense Fund** means the Fund of that name established pursuant to Indenture.

**Agencies** means the agencies of the State identified as such in "Appendix C – Project Information" to the Indenture.

**Agency Principal Amount** means, with respect to any Agency at any time, the principal amount of Bonds Outstanding at such time relating to funding the construction of such Agency's Project calculated as follows:

(a) an initial amount equal to the principal amount of the Bond allocable to the initial funding of such Agency's Project; increased by

(b) for each issue of Additional Bonds, the principal amount of such Additional Bonds allocable to the funding of such Agency's Project as set forth in an Officer's Certificate of the Issuer and each applicable Agency; and decreased by

(c) the amount of principal repayments of the Bonds (including Additional Bonds) funded by Installment Payments made by such Agency; and further decreased by

(d) the aggregate principal amounts of Bonds (including Additional Bonds) redeemed or defeased with funds deposited with the Trustee by such Agency.

**Authorized Denominations** means, with respect to the Series 2011 Bonds, $5,000 and any integral multiple thereof and, with respect to any series of Additional Bonds, the amounts identified as such in the Supplemental Indenture pursuant to which they are issued.

**Authorized Officer** means (a) with respect to the Issuer, the Chair (or Co-Chair) of the Issuer's Oversight Bond, and (b) with respect to an Agency, the holders of certain designated offices or, in each case, such other officer or agent of the Issuer as shall be set forth from time to time in an Officer's Certificate of the Issuer or any Agency, as applicable, delivered to the Trustee for such purpose.

**Beneficial Owner** means for any Book-Entry Bond, the beneficial owner of such Book-Entry Bond.

**Bonds** mean the Series 2011 Bonds and any Additional Bonds.

**Bond Counsel** means Drinker Biddle & Reath LLP or an attorney or firm of attorneys nationally recognized in matters involving municipal finance and acceptable to the Issuer.

**Bond Fund** means the fund of that name established pursuant to the Indenture.

**Bond Registrar** means the Trustee.

**Book-Entry Bonds** means all Bonds for which the Securities Depository or its nominee is the Owner.

**Business Day** means any day on which the Trustee is open for business and on which the New York Stock Exchange is not closed.

**Capitalized Interest Subaccounts** mean the Accounts of that name established in the Project Accounts pursuant to the Indenture.

**Certified Resolution** means one or more resolutions of the governing body of the Issuer, certified by the Secretary or Assistant Secretary of the Issuer, under its seal, to have been duly adopted and to be in full force and effect as of the date of certification.

**Change** means any change to the Work.

**Closing Statement** means the closing statement delivered at the time of the issuance of a series of Bonds, signed on behalf of the Issuer by an Authorized Officer, specifying the deposits to be made with the proceeds thereof and the payments to be made with such proceeds, including the Persons to which each payment is to be made and the amount of each such payment.

**Code** means the Internal Revenue Code of 1986 and the regulations promulgated thereunder and under the Internal Revenue Code of 1954.

**Construction Funding Agreements** means the agreements identified as such in the Indenture.

**Construction Price**, for each Project, means the amount identified as such in Appendix E to this Official Statement.

**Construction Unit** means, with respect to any Guaranteed Energy Savings Agreement, a system or other portion of the Construction Work identified therein that is capable of functioning and testing independent of the balance of the Construction Work.

**Construction Unit Completion** means, with respect to any Construction Unit, that conditions described under "Guaranteed Energy Savings Agreement – Construction Unit Completion; Final Completion" in this Appendix D have been met for such Construction Unit.

**Construction Unit Completion Date** means, for any Construction Unit, the date on which Construction Unit Completion thereof was achieved.

**Construction Work** is defined in this Appendix D under "Guaranteed Energy Savings Agreement."

**Contractors** means the Persons identified as such in Appendix E to this Official Statement.

**Depository Procedures** means the operational arrangements of DTC or other applicable Securities Depository applicable to the deposit, transfer, exchange, registration, redemption and payment of, and other matters pertaining to, any Book-Entry Bonds, as established from time to time by the DTC or such other Securities Depository and agreed to by the Issuer and the Trustee.

**DTC** means The Depository Trust Company, New York, New York.

**Electronic Means** means telecopy, facsimile transmission, or, if approved in writing by the Trustee hereafter, e-mail transmission or other similar electronic means of communication, in each case capable of being evidenced by a hard copy.

**Energy Performance Contracting Act** means the Energy Performance Contracting Act set forth in 29 Del. C. §§ 6971 et seq.

**Energy Savings** means, for any Savings Year, the energy savings calculated by comparing actual energy consumption to the baseline energy consumption for such Savings Year, as calculated in accordance with Guaranteed Energy Savings Agreement.

**Energy Savings Guarantee** means, with respect to any Project, the Energy Savings levels guaranteed by the Contractor under the related Guaranteed Energy Savings Agreement. Each Project will have a different Energy Savings Guarantee.

**Equipment** means the equipment to be installed as part of the Construction Work.

**Event of Default** means, with respect to the Indenture, any of those events defined as events of default under the caption "The Indenture – Events of Default" in this Appendix D and, with respect to the Guaranteed Energy Savings Agreement, any of those events defined as events of default under the caption "Guaranteed Energy Savings Agreement – Events of Default" in this Appendix D.

**Favorable Opinion of Bond Counsel** means a written opinion of Bond Counsel to the effect that the facts or circumstances in question (a) are authorized under the Indenture and the Act and (b) will not adversely affect the validity of the Bonds or the exclusion from gross income for federal tax purposes of the interest on the Bonds.

**Final Completion** means, for any Project, that conditions described under "Guaranteed Energy Savings Agreement – Construction Unit Completion; Final Completion" in this Appendix D have been met for such Project.

**Final Completion Date** means, for any Project, the date on which Final Completion of such Project occurs.

**Financial Advisor** means an investment banking or financial advisory firm which is appointed by the Issuer for the applicable purpose set forth herein, which is actively engaged in and has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of obligations similar to the Bonds, and is not unsatisfactory to the Trustee.

**Funds and Accounts** means the funds and accounts established under the Indenture.

**Government and Agency Securities** means (a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal and interest on which are unconditionally guaranteed by the United States of America including (i) U. S. Treasury obligations - All direct or fully guaranteed obligations; (ii) Farmers Home Administration - Certificates of beneficial ownership; (iii) General Services Administration - Participation certificates; (iii) U.S. Maritime Administration - Guaranteed Title IX financing; and (iv) Small Business Administration - Guaranteed participation certificates and Guaranteed pool certificates; and (b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by the following U.S. Government-sponsored agencies (not backed by the full faith and credit of United States of America): (i) Federal Home Loan Mortgage Corp. (FHLMC) - Participation certificates (excluding stripped mortgage securities purchased at prices exceeding their principal amounts); (ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) - consolidated systemwide bonds and notes; (iii) Federal Home Loan Banks (FHL Banks) - Consolidated debt obligations; (iv) Federal National Mortgage Association (FNMA) - Senior Debt Obligations and Mortgage-backed securities (excluding stripped mortgage securities purchased at prices exceeding their principal amounts); (v) Student Loan Marketing Association (SLMA) - Senior debt obligations (excluding securities not having a fixed par value and/or having terms not promising a fixed dollar amount at maturity or call date) and LOC-backed issues; (vi) Financing Corp. (FICO) - Debt obligations; and (vii) Resolution Funding Corp. (REFCORP) - Debt obligations.

**Guaranteed Energy Savings Agreements** means the agreements identified as such in Appendix E to this Official Statement.

**Guaranteed Final Completion Date** means, with respect to any Project, the date defined as such in the related Guaranteed Energy Savings Agreement, as it may be extended as provided therein. Each Project will have a different Guaranteed Final Completion Date.

**Interest Account** means the Account of that name established pursuant to the Indenture.

**Interest Payment Date** means, with respect to the Series 2011 Bonds, September 15 and March 15 of each year, commencing March 15, 2012,and, with respect to any series of Additional Bonds, the date or dates indentified as such in the Supplemental Indenture pursuant to which they were issued.

**Installment Payment Agreements** means the agreements identified as such in Appendix E to this Official Statement.

**Installment Payments** means payments to be made by the Agencies under their respective Installment Payment Agreements.

**Investment Securities** means any of the following:

(a) Government and Agency Securities;

(b) Direct and general obligations of, or any obligations guaranteed by, any state of the United States of America or any political subdivision thereof, including any general obligation or special revenue bonds or notes but, in each case, only if at the time of their purchase such obligations are rated in any of the three highest Rating Categories by any Rating Agency, or, upon the discontinuance of such service, any other nationally recognized rating service or services;

(c) Repurchase agreements (i) with a bank, trust company, national banking association (including the Trustee or any of its Affiliates), insurance company, insurance holding company, investment banking company, financial services company or other similar organization that has, or the parent company of which has, a current rating in any of the three highest Rating Categories by any Rating Agency or other equivalent rating throughout the term of the repurchase agreement for any purpose, including outstanding indebtedness, pursuant to which there has been delivered to the Trustee, or its designee, Government and Agency Securities having at all times a fair market value of at least 100% of the value of such agreement; or (ii) with a bank, trust company, national banking association (including the Trustee or any of its Affiliates), insurance company, insurance holding company, investment banking company, financial services company or other similar organization not meeting the rating requirements of clause (i) above pursuant to which there has been delivered to the Trustee or its designee, Government and Agency Securities having at all times a fair market value of at least 102% of the value of such agreement;

(d) Investment agreements (including any agreement for the forward or future delivery to the Trustee of Government and Agency Securities and/or securities described in clause (b) of this definition) with a bank, trust company, national banking association (including the Trustee or any of its Affiliates), insurance company, insurance holding company, investment banking company, financial services company or other similar organization which is, or the parent of which (if the parent has fully guaranteed its subsidiary's obligations) is, at the time the agreement is entered into, rated in any of the three highest Rating Categories by any Rating Agency;

(e) Negotiable or non-negotiable certificates of or demand deposit, including time or demand deposits, trust funds or trust accounts, or other similar banking arrangements, issued by any bank or trust company (which may be the commercial banking department of the Trustee or any of its Affiliates) or savings and loan association that are (i) insured by the Federal Deposit Insurance Corporation or (ii) to the extent not so insured, secured as to principal by Government and Agency Securities; and

(f) Shares of an open-end, diversified investment company that is qualified under Rule 2a-7 promulgated under the Investment Company Act of 1940, the shares of which are registered under the Securities Act of 1933 and having aggregate net assets of not less than $50,000,000 on the date of purchase (including any such mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

**Issue Date** means, with respect to any Bonds, the date on which such Bonds are issued.

**Issuer** means the Sustainable Energy Utility, Inc.

**Issuer Fees** means the fees and expenses payable to the Issuer by the Agencies pursuant to the Construction Funding Agreements.

**Material Change** means any change in or to the Premises, whether structural, operational or otherwise in nature, that increases or decreases annual energy consumption at the Premises, as determined in accordance with the Measurement and Verification Plan, by more than 5% after adjustments for climatic variations, including the following:

(a) manner of use of the Premises by the Agency;

(b) hours of operation for the Premises or for any equipment or energy using systems operating at the Premises;

(c) occupancy of the Premises;

(d) modification, renovation or construction at the Premises;

(e) permanent changes in the comfort and service parameters set forth in the Guaranteed Energy Savings Agreements;

(f) a change in the types and quantities of equipment used at the Premises;

(g) the effect of any malfunction, emergency or other event or condition described in the Guaranteed Energy Savings Agreements as to which Agency failed to notify Contractor in accordance with Guaranteed Energy Savings Agreements; and

(h) any other conditions other than climate affecting energy use at the Premises.

**Measurement and Verification Services** means the obligations to be performed by the Contractors under the Guaranteed Energy Savings Agreements to determine Energy Savings.

**Officer's Certificate** means, with respect to the Issuer or any Agency, a certificate signed on its behalf by an Authorized Officer.

**Outstanding** means, with respect to the Bonds, all Bonds authenticated and delivered under the Indenture as of the time in question, except:

(a) Bonds previously canceled or required to be canceled under the Indenture;

(b) Bonds for the redemption of which cash or non-callable Defeasance Securities, the principal of and interest on which, when due, will provide sufficient money to fully pay such Series 2011 Bonds or any portion thereof in accordance with the terms thereof, has been or will be concurrently deposited with the Trustee; provided that, if such Series 2011 Bonds are being redeemed, the Redemption Notice has been given or irrevocable instructions to give such notice has been given pursuant to the Indenture; and

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

**Owner** means the Person or Persons in whose name or names a Bond is registered on the Bond Register.

**Payment Date** means any Interest Payment Date or any date on which the principal of any Bond is due at maturity or mandatory sinking fund redemption prior to maturity.

**Payment Office** means, with respect to the Trustee, the office specified in the Indenture.

**Person** means an individual, corporation, limited liability company, partnership, association, joint stock company, trust, unincorporated organization, governmental unit or an agency, political subdivision or instrumentality thereof or any other group or organization of individuals.

**Premises** means, with respect to any Project, the Sites for such Project, collectively.

**Project** means, with respect to any Agency, the implementation of certain energy conservation measures pursuant to the Guaranteed Energy Savings Agreement to which such Agency is a party.

**Project Account** means, with respect to any Project, the Account established in the Project Fund for the purposes funding the cost of such Project.

**Project Completion Date** means, with respect to any Project, the date specified as such in a certificate delivered to the Trustee by the related Agency pursuant to the related Construction Funding Agreement and approved by the Issuer, such date being the date on which the related Agency approves of, or is deemed to have approved, the Completion Certification delivered by the related Contractor pursuant to the related Guaranteed Energy Savings Agreement.

**Project Fund** means the Fund of that name established pursuant to the Indenture.

**Proportionate Share** means, with respect to any Agency on any date, the ratio of such Agency's Agency Principal Amount on such date to the aggregate principal amount of all Bonds Outstanding (including Additional Bonds) on such date.

**Rating Agency** means each of (a) Moody's Investor Service, (b) Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc., (c) Fitch Ratings and (d) if any of the foregoing does not, at the particular time, provide rating services, any nationally recognized rating agency designated in writing by the Issuer and acceptable to the Trustee.

**Rating Category** means any of the principal rating categories assigned to investment securities or credit facilities by any Rating Agency, without regard to any gradation or distinction within any Rating Category (such as may be identified by numerical symbols or the symbols "+" or "-").

**Redemption Fund** means the Fund of that name established pursuant to the Indenture.

**Redemption Notice** is defined in the Indenture.

**Redemption Price** means the principal amount of any Bond to be redeemed pursuant to the Indenture, plus the applicable premium, if any, payable upon redemption.

**Regular Record Date** means the first day (whether or not a Business Day) of the calendar month immediately preceding each Interest Payment Date.

**Representation Letter** means the Blanket Authority Letter of Representations signed by the Issuer in the form prescribed by DTC.

**Required Owners** means, at any time, the Owners of more than 50% in the aggregate of the principal amount of all Bonds Outstanding at that time.

**Responsible Officer** means with respect to the Trustee, any officer of the Trustee with direct responsibility for the administration of this Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject; and with respect to the Trustee, any vice president, assistant vice president, any assistant secretary, any assistant treasurer, any associate or any other officer of the Trustee, customarily performing functions similar to those performed by any of the above designated officers who at such time shall be officers to whom, with respect to a particular matter, such matter is referred because of such officer's knowledge of and familiarity with the particular subject or who shall have direct responsibility for the administration of the Indenture.

**Savings Year** means the year beginning on the first day of the month following the Guaranteed Final Completion Date and each year thereafter, except that the final Savings Year will end on the last day of the term of the Guaranteed Energy Savings Agreement.

**Securities Depository** means DTC or other Person registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934 or whose business is confined to the performance of the functions of a clearing agency with respect to exempted securities, as defined in Section 2(a)(12) of the Securities Exchange Act of 1934 for purposes of Section 17A thereof.

**Series 2011 Bonds** means the Issuer's Energy Efficiency Revenue Bonds, Series 2011.

**SEU Authorizing Act** means the Delaware Energy Act, Del. Code Ann. Tit. 29 8059(c).

**Sites** means, with respect to any Project, the locations identified in the related Guaranteed Energy Savings Agreement on Construction Work will be performed.

**Special Record Date** for the payment of any Defaulted Interest (as defined in the Indenture) means a date fixed by the Trustee in accordance with the provisions of the Indenture.

**Standards of Comfort** means the standard for heating, cooling, hot water and lighting described in the Guaranteed Energy Savings Agreements.

**State** means the State of Delaware.

**State OMB Agreements** means, collectively, Memoranda of Understanding each between the Delaware Office of Management and Budget ("OMB") and an Agency (other than Delaware State University, an Agency Agreement between OMB and Delaware State University and a Memorandum of Understanding between OMB and the Issuer.

**Supplemental Indenture** means any indenture amending or supplementing the Indenture that is entered into in accordance with the provisions of the Indenture.

**Transaction Documents** means, collectively, the Guaranteed Energy Savings Agreements, the Installment Payment Agreements, the Construction Funding Agreements and the State OMB Agreements.

**Trustee** means Citibank, N.A., New York, New York.

**Trustee Fees** means the fees and expenses payable to the Trustee by the Agencies pursuant to the Construction Funding Agreements.

**Work** means the Construction Work and Measurement and Verification Services together.

## Trust Indenture

The following is a summary of certain provisions of the Indenture between the Issuer and the Trustee. Reference is made to the Indenture for a complete description thereof. The discussion herein is qualified by such reference.

### Pledge

To secure all of the Bonds, the payment of the principal or Redemption Price (as the case may be) thereof and interest thereon, the rights of the Owners, and the performance of the covenants contained in the

Bonds and in the Indenture, the Issuer does hereby sell, assign, transfer, set over and pledge unto the Trustee, its successors in the trust and its assigns forever in all right, title and interest of (but not the obligations) of the Issuer in and to the following (collectively, the "Trust Estate"), subject in each case, to the terms and provisions of the Indenture: (a) all right, title and interest of the Issuer in the Installment Payment Agreements, including all extensions and renewals of the terms thereof, if any, and including the present and continuing right to receive, receipt for, collect or make claim for any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer or any other Person is or may become entitled to do under the Installment Payment Agreements; (b) all moneys and investments in the Funds and Accounts (including all income and receipts earned amounts on deposit therein) other than (i) the Administrative Expense Fund and the amounts on deposit therein and (ii) the Rebate Fund and amounts on deposit therein, each of which shall be held in accordance with the provisions of the Indenture; and (c) any and all other property rights and interests of any kind and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, alienated, demised, released, conveyed, assigned, transferred, mortgaged or pledged to the Trustee, or otherwise subject hereto, as and for additional security herewith, by the Issuer or any other Person on its behalf or with its consent, and the Trustee is hereby authorized to receive any and all property at any and all times and to hold and apply the same subject to the terms hereof.

**Funds and Accounts**

The Trustee shall establish the following Funds and Accounts: (a) Project Fund and, within it, a Project Account for each Project and, within each Project Account, a Capitalized Interest Subaccount; (b) Bond Fund and, within it, a Principal Account and an Interest Account; (c) Redemption Fund; (d) Administrative Expense Fund and (e) Rebate Fund.

The Trustee shall apply the proceeds (less the underwriter's discount and original issue discount, if any) of the Bonds as follows: (a) to the costs of issuance of the Series 2011 Bonds as set forth in a Closing Statement; (b) to the Interest Account, an amount equal to the accrued interest, if any, paid by the original purchasers of the Bonds; (c) to each Project Account, the applicable amount set forth in the Closing Statement; and (d) to each Capitalized Interest Subaccount.

*Project Fund.* The Trustee shall deposit moneys into the Project Accounts and the Capitalized Interest Subaccounts pursuant to the Indenture. Except as provided in the Indenture, the Trustee shall make disbursements from a Project Account to pay amounts due to the related Contractor pursuant to the related Construction Funding Agreement. Such disbursements may be made upon receipt by the Trustee of (i) a disbursement request executed by the related Borrower or (ii) a disbursement request executed by the related Contractor. Disbursements from the Project Accounts will be made on the 15th day of each calendar month following submission of a disbursement request or, if not a Business Day, the next-following Business Day.

On each Interest Payment Date prior to the Project Completion Date for any Project, the Trustee shall transfer from the related Capitalized Interest Subaccount (without the need for instruction) to the Interest Account the applicable amount for such Interest Payment Date. Funds in the Capitalized Interest Account may also be applied semiannually to pay the annual administrative fees of the Issuer and the Trustee.

On the Project Completion Date for a Project, any moneys remaining in the related Project Account (including the Capitalized Interest Subaccount) will, at the direction of the Issuer, be (i) disbursed to the related Agency to be applied to the costs of any project that is authorized under the Act to be funded with the proceeds of the Bonds, provided that the Trustee receives a Favorable Opinion of Bond Counsel, or (ii) transferred to the Bond Fund. Any amounts so transferred will be credited against the related

Agency's obligation to make the first Installment Payment or, to the extent that the amount transferred is greater than the first Installment Payment, against subsequent Installment Payments.

*Bond Fund.* The Trustee shall deposit all Installment Payments received by it into the Bond Fund other than amounts required to be deposited into the Administrative Expense Fund as described below under "Administrative Expense Fund". On each Payment Date, the Trustee shall transfer moneys on deposit in the Bond Fund as follows: (a) to the Interest Account, an amount equal to interest then due and payable on the Bonds and (b) to the Principal Account, an amount equal to principal then due and payable on the Bonds; and apply such moneys to the payment of interest on and principal of the Bonds then due. Each Agency Proportionate Share of any amount remaining in the Bond Fund on any Payment Date, after giving effect to the foregoing transfers, will be credited against such Agency's obligation to make the next Installment Payment due after such Payment Date. If any funds remain in the Bond Fund on any Payment Date after giving effect to the foregoing transfers, the Agencies' respective Proportionate Shares of such funds will be credited against their respective obligations to make the next Installment Payment due after such Payment Date.

*Administrative Expense Fund*. The Trustee shall deposit into the Administrative Expense Fund the portion of each Installment Payment designated from each Agency allocable to the payment of the Trustee's administrative fee and the Issuer administrative fee as set forth in the Indenture. Amounts in the Administrative Expenses Fund shall be applied by the Trustee to the payment of the Trustee's annual administrative fee in connection with its services hereunder and to the payment of the Issuer's annual program fee. Notwithstanding the foregoing, no amount shall be deposited into the Administrative Expenses Fund in any month unless the full amount of Installment Payments allocated to the payment of the Bonds has first been deposited to the Bond Fund.

*Redemption Fund*. The Trustee shall deposit into the Redemption Fund all amounts received by it for the optional redemption of Bonds. Funds on deposit in the Redemption Fund may be used solely for payment of the Redemption Price of the Bonds to be redeemed.

*Rebate Fund.* The Issuer has covenanted in the Indenture to calculate and cause to be paid to the government of the United States of America all amounts due for payment of "arbitrage rebate" under Section 148(f) of the Code with respect to the Series 2011 Bonds. Amounts shall be deposited in the Rebate Fund to be retained and applied for such purpose only as the Issuer shall direct. All amounts in the Rebate Fund, including income earned from investment of moneys held in the Rebate Fund, shall be held by the Trustee solely for such purpose, free and clear of the lien and pledge of this Series 2011 Indenture and the Trustee, at the written direction of the Issuer, shall pay said amounts over to the government of the United States of America.

*Additional Accounts.* The Trustee may, and at the request of the Issuer shall, establish and maintain additional Accounts and Subaccounts within any Fund; provided that (a) the request of the Issuer sets forth in reasonable detail the sources of deposits into and disbursements from the account or subaccount to be established, (b) in each case, the sources of deposits into and disbursements from the Account or Subaccount to be established will be limited to the sources of deposits permitted or required to be made into and the disbursements permitted or required to be made from the Fund or Account within which it is to be established, and (c) each additional Account or Subaccount established will be held in trust for the benefit of all Owners, except funds that were set aside for the payment of particular Bonds and funds held in the Rebate Fund.

**Additional Bonds**

The Issuer may, from time to time, issue one or more series of Additional Bonds, secured on a parity with the Bonds, to pay the cost of completing one or more Projects, fund capitalized interest and to pay the cost of issuance thereof. If the Additional Bonds are being issued to pay the cost of completing one or more Projects, a certification by a financial advisor acceptable to the Trustee, stating that the aggregate increases in the Installment Payments to be made pursuant to the related the Installment Payment Agreement(s) will be sufficient to pay interest on and the principal or Redemption Price of the Additional Bonds when due. The Trustee shall authenticate and deliver series of Additional Bonds at the request of the Issuer, upon delivery to the Trustee of the documents required under the Indenture, including Certified Resolutions, a Supplemental Indenture and Opinions of Counsel.

**Investments**

*Deposits and Security Therefor.* All moneys received by the Trustee under the Indenture for deposit in any Fund established hereunder shall be considered trust funds. All moneys on deposit with the Trustee shall, to the extent not insured, be secured in the manner required or permitted by State or other applicable law. Subject to the foregoing requirements as to security, if at any time the commercial department of the Trustee is unwilling to accept such deposits or unable to secure them as provided above, the Trustee may deposit such moneys with any other depository which is authorized to receive and secure them as aforesaid and the deposits of which are insured by the Federal Deposit Insurance Corporation. All security for deposits shall be perfected in such manner as may be required or permitted under applicable law in order to grant to the Trustee a perfected lien on or security interest in such security.

*Investment or Deposit of Funds.* The Trustee shall invest and reinvest moneys on deposit in the Funds and Accounts as follows:

(a) Moneys on deposit in any Fund or Account may be invested only in Investment Securities maturing, or subject to repurchase, withdrawal without penalty or redemption at the option of the Trustee, on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes hereof.

(b) The Trustee shall make all investments at the direction of the Issuer (given in writing or orally, promptly confirmed in writing). In the absence of any such direction, the Trustee shall cause such moneys to be invested in any Investment Securities described in clause (f) of the definition thereof. The Trustee shall not make any representation as to the accuracy of any quotation of market price of any security or investment (or the accrued interest thereon) in any Fund or Account, and the Issuer shall indemnify and hold harmless the Trustee and its Affiliates and their respective officers and employees, from and against any and all liabilities, claims and charges, etc. in connection with or resulting from the Trustee's valuation of the investments in any Funds or Accounts as provided in the Indenture.

(c) The Trustee shall apply all interest, income and gains received in respect of amounts on deposit in any Fund or Account as follows:

(i) all interest, income and gains received in respect of Investment Securities held in the Project Accounts will be retained therein to be applied as provided in the Indenture;

(ii) all interest, income and gains received in respect of Investment Securities in the Bond Fund will be retained therein to be applied as provided in the Indenture; and

(iii) all interest, income and gains received in respect of Investment Securities in the Rebate Fund will be retained therein.

Notwithstanding the provisions of clause (i) above, in connection with the investment of moneys in the Project Accounts under any investment or repurchase agreement otherwise permitted hereunder, the investment or repurchase agreement may provide or the Trustee may direct the investment provider to reinvest investment earnings under such agreement and to accumulate such earnings to be applied as provided in the Indenture.

(d) Whenever any other transfer or payment is required to be made from any particular Fund or Account, such transfer or payment shall be made from such combination of maturing principal, redemption or repurchase prices, liquidation proceeds and withdrawals of principal as the Trustee deems appropriate for such purpose.

(e) Neither the Issuer nor the Trustee will be liable for any depreciation in the value of any Investment Securities or any losses incurred upon any authorized disposition thereof.

*Reports of Trustee.* The Trustee shall deliver to the Issuer a monthly statement, no later than the 15th day of the month next following the month in which the Indenture is executed, and no later than the same day of each month thereafter, describing the investment or deposit of funds made pursuant to the Indenture, the investment income thereon, as applicable, and the transfers to or charges against the Funds and Accounts. The Issuer will be entitled to receive copies of any such statements upon its request

**Compliance with the Internal Revenue Code**

In the Tax Compliance Agreement, the Issuer covenants that it will (i) take, or use its best efforts to require to be taken, all actions that may be required of the Issuer for the interest on the Bonds to be and remain excluded from gross income for federal income tax purpose and (ii) not take or authorize to be taken any actions within its control that would adversely affect that status under the provisions of the Code.

The Issuer covenants that it will make no investment or other use of the proceeds of the Bonds that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Issuer further covenants that it will not knowingly take or omit to take any action over which it has control, which action or inaction would cause the interest on any of the Bonds to become includable in the gross income of the Owners thereof for federal income tax purposes.

**Certain Covenants**

*Payment of Principal and Interest on Bonds*. The Issuer shall promptly pay the interest on and the principal or Redemption Price of every Bond according to the terms thereof, but only out of Installment Payments and only in accordance with the provisions of the Indenture.

*Corporate Existence and Maintenance of Properties.* The Issuer shall (a) maintain its non-profit corporate existence, (b) maintain its power to perform its obligations hereunder and to exercise its rights and remedies under the Installment Purchase Agreements and (c) comply with applicable law.

*Related Agreements*. The Issuer shall cooperate with the Trustee in enforcing the Installment Payment Agreements against the counterparties thereto. The Issuer shall give prompt notice to the Trustee of any default known to the Issuer under a Construction Funding Agreement, an Installment Payment Agreement or a State OMB Agreement.

*Extension of Time for Payment*. The Issuer may not directly or indirectly extend or assent to the extension of the time for payment of the principal of or interest on any Bonds or be a party to or approve any arrangement therefor. Notwithstanding the foregoing, any Owner of a Bond may extend the time for payment of the principal of or interest on such Bond; provided that, upon the occurrence of an Event of Default, funds available hereunder for the payment of the principal of and interest on the Bonds will not be applied to any payment so extended until all principal and interest payments that have not been extended have first been paid in full.

*Rebate Calculations*. The Issuer shall calculate all amounts due for payment of "arbitrage rebate" under Section 148(f) of the Code with respect to the Bonds and deliver to each Agency a notice setting forth the amount of such rebate that such Agency is obligated to deposit with the Trustee pursuant to its Construction Funding Agreement. The Issuer shall deliver copies of such notices to the Trustee, together with instructions to the Trustee to pay amounts so deposited to the government of the United States of America (the "Government"). The Issuer may collect such funds and pay any rebate amounts due directly to the Government or, alternatively, may direct that such amounts be deposited and retained for such payment in the Rebate Fund.

*Further Assurances*. The Issuer may not enter into any contract or take any action by which the rights of the Trustee or the Owners may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as the Trustee may reasonably request to carry out the purposes of the Indenture.

**The Trustee**

*Trustee May Act through Agents.* The Trustee may execute any powers under the Indenture and perform any duties required of it through attorneys, agents, officers, or employees, and is entitled to advice of counsel concerning all questions hereunder; and the Trustee will not be answerable for the negligence or misconduct of any attorney or agent selected by it. The Trustee will not be answerable for the exercise of any discretion or power under the Indenture or for anything whatsoever in connection with the trust hereunder, except for its own grossly negligent action, its own grossly negligence failure to act of its own willful misconduct.

*Notice of Default; Right to Investigate.* The Trustee shall, within 30 days after the occurrence thereof, give notice to all Owners by first class mail of any Event of Default known to the Trustee; provided that, except in the case of a default in payment of principal, the Trustee may withhold such notice so long as it has determined in good faith that such withholding is in the interest of the Owners. The Trustee will not be deemed to have notice of any Event of Default unless it has actual knowledge thereof or it has been notified thereof by the Required Owners. The Trustee may require the Issuer to provide full information as to the performance of any covenant in the Indenture and, if information satisfactory to the Trustee is not forthcoming, the Trustee may make or cause to be made, at the expense of the Issuer, an investigation into the affairs of the Issuer related to the Indenture.

*Obligation to Act on Defaults.* Except during the continuance of an Event of Default of which the Trustee has actual knowledge, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee. If any Event of Default exists, the Trustee shall exercise those rights and remedies vested in it by the Indenture and use the same degree of care in their exercise as a prudent Person would exercise or use in the circumstances in the conduct of such Person's own affairs; provided that if, in the opinion of the Trustee, such action may involve expense or liability, it will not be obligated to take such action unless it is furnished with indemnity satisfactory to it.

*Reliance by Trustee*. The Trustee may act on any requisition, resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, or other paper or document that it in good faith believes to be genuine and passed or signed by the proper Persons or was prepared and furnished pursuant to any of the provisions of the Indenture. The Trustee will be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement.

*Trustee May Deal in Bonds.* The Trustee may in good faith buy, sell, own, hold and deal in any Bonds and may join in any action that any Owners may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee may also engage in or be interested in financial or other transactions with the Issuer, provided that such transactions are not in conflict with its duties under the Indenture.

*Construction of Ambiguous Provisions.* The Trustee may construe any ambiguous or inconsistent provisions of the Indenture and any construction by the Trustee will be binding on the Owners. The Trustee shall give prompt notice to the Issuer of any intention to make such construction.

*Resignation of Trustee.* The Trustee may resign and be discharged of the trusts created by the Indenture by written resignation filed with the secretary of the Issuer not less than 60 days before the date when such resignation is intended to take effect; provided that it mails notice of any such resignation to the Owners at their registered addresses not less than 30 days prior to the intended effective date of the resignation, and that no resignation will take effect until a successor Trustee has been appointed and has accepted such appointment.

*Removal of Trustee.* Any Trustee may be removed at any time by an instrument appointing a successor to the Trustee so removed, executed by (i) the Issuer so long as no Event of Default has occurred and is then continuing and (ii) by the Required Holders at any time during which an Event of Default is then continuing. Any such instrument shall be filed with the Trustee. Any such removal will be effective on the date on which a successor Trustee accepts such appointment.

*Indemnification and Compensation*. The Trustee shall be entitled to the Trustee Fees and Expenses to be paid by the Issuer. In addition, the Trustee shall be entitled to recover from the Issuer and the Trust Estate all reasonable out-of-pocket expenses, disbursements and advances and the expenses of the Trustee, as applicable, in connection with any breach of this the Indenture or any claim or legal action (including any pending or threatened claim or legal action) or otherwise incurred or made by the Trustee in the administration of its duties or the exercise of its rights hereunder (including the reasonable compensation, expenses and disbursements of its counsel) except any such expense, disbursement or advance as may arise from its own gross negligence or willful misconduct. Such compensation and reimbursement obligation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust. Additionally, the Trustee and any director, officer, employee or agent of the Trustee shall be indemnified by the Issuer and the Trust Estate and held harmless against any loss, liability or expense (including reasonable attorney's fees and expenses) incurred or relating to the administration of the Indenture or in connection with any claim or legal action relating to the Bonds or the Transaction Documents other than any loss, liability or expense incurred by reason of its own gross negligence or willful misconduct. The payment obligations to the Trustee described in this paragraph will survive the discharge of this Indenture and the termination or resignation of the Trustee.

As security for the performance of the obligations of the Issuer described in this paragraph, the Trustee shall have a lien prior to the lien securing the Bonds, which it may exercise through a right of setoff, upon all property or funds held or collected by the Trustee pursuant to the Indenture, but such lien shall not extend to any property or funds held or credited to the Project Fund (including any account thereof) or the Rebate Fund. The obligations of the Issuer to make the payments described in this paragraph shall survive discharge of this Indenture, the resignation or removal of the Trustee and payment in full of the Bonds

*Further Rights of the Trustee*. The Indenture provides for additional rights of the Trustee, and limitations on liability of the Trustee and includes a provision that the Trustee will not be responsible for and makes no representation as to the validity or adequacy of the Indenture, the Transaction Documents or the Bonds, it will not be accountable for the use of the proceeds from the Bonds, and will not be responsible for any representation, warranty, covenant or other statement of the Issuer under the Indenture or in the Bonds (other than the Trustee's certificate of authentication), or of any party to the Transaction Documents, any disclosure or offering document or in any document issued in connection with the sale of the Bonds.

**Successor Trustee**

If the Trustee resigns or is removed or dissolved, or if its property or business is taken under the control of any state or federal court or administrative body, the Issuer shall appoint a successor. If the Issuer fails to make such appointment within 30 days, the appointment may be made by the Required Holders . Notice of any such appointment shall be mailed promptly by the successor Trustee to the Owners at their registered addresses.

If no appointment of a successor Trustee has been made pursuant to the subsection above within two months after a vacancy has occurred in the office of Trustee, the Trustee or any Owner may apply to any court of competent jurisdiction to appoint such successor Trustee. Such court may appoint a successor Trustee meeting the qualifications of the subsection below and otherwise as the court may deem proper.

A successor Trustee must be a national bank with trust powers, a bank with trust powers, or a bank and trust company or a trust company organized under the laws of the State, in each case, having a combined net capital and surplus of at least $50,000,000.

Any successor Trustee must execute, acknowledge and deliver to the Issuer an instrument accepting such appointment hereunder; and thereupon such successor Trustee, without any further act, deed or conveyance, would become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor in the trust under the Indenture, with like effect as if originally named Trustee herein. The Trustee ceasing to act under the Indenture shall pay over to the successor Trustee all moneys held by it under the Indenture and, at the request of the successor Trustee, the Trustee ceasing to act and the Issuer shall execute and deliver an instrument transferring to the successor trustee all the estates, properties, rights, powers and trusts under the Indenture of the Trustee ceasing to act.

*Merger of Trustee.* Any corporation into which any Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any Trustee shall be a party, will be the successor Trustee, without the execution or filing of any paper or any further act on the part of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding, provided that any such successor corporation continuing to act as Trustee under the Indenture must meet the requirements described above and, if such corporation does not meet such requirements, a successor Trustee shall be appointed pursuant to Article 8 of the Indenture.

*Appointment of Co-Trustee or Separate Trustee*. For the purpose of meeting any legal requirement of any jurisdiction in which any part of the Trust Estate may at the time be located, and subject to the terms of the Indenture, the Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity and for the benefit of the Owners, such title to the Trust Estate, or any part hereof, and, subject to the other provisions of the Indenture, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable.

**Defaults and Remedies**

Events of Default under the Indenture are: (a) failure to pay any installment of interest on any Bond when it becomes due and payable; (b) failure to pay the principal or Redemption Price of any Bond when it becomes due and payable at maturity or upon call for redemption; (c) failure by the Issuer to comply with any provision of the Act that renders it incapable of fulfilling its obligations hereunder; and (d) failure by the Issuer to punctually perform any other covenant in the Bonds or in the Indenture. The Issuer shall deliver to the Trustee within five days after learning of any occurrence that is, or with notice or lapse of time or both would, become an Event of Default, written notice in the form of an Officer's Certificate, indicating the status of such occurrence and what action the Issuer is taking or proposes to take with respect thereto. The Trustee shall not be deemed to have knowledge of any Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of such Event of Default is received by a Responsible Officer and such notice references the Bonds, the Trust Estate or the Indenture. No Event of Default will occur under subsection (c) or (d) above unless the failure continues for 60 days after notice requiring the same to be cured has been given to the Issuer by the Trustee, which the Trustee may give in its discretion and shall give at the request of the Required Owners; provided that, if such cure requires work to be done, actions to be taken or conditions to be remedied, that by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 60-day period, no Event of Default will occur or exist if, and so long as, the Issuer commences such performance within such 60-day period diligently and continuously prosecutes the same to completion.

Notwithstanding anything in the Indenture to the contrary, any Event of Default may be waived (i) in the case of an Event of Default described in subsection (a) or (b) of foregoing paragraph with the consent of each Owner affected thereby, and (ii) in the case of any Event of Default occurring under subsection (c) or (d) of foregoing paragraph with the written consent of the Required Owners

Upon the occurrence and continuance of an Event of Default, the Trustee may, and at the request of the Required Owners and provision of indemnity satisfactory to the Trustee shall, proceed to protect and enforce its rights and the rights of the Owners under the laws of the State and under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant, condition or agreement contained herein or in aid of execution of any power herein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights. The rights and remedies which the Trustee may or shall exercise include all or any of the following: (a) the right in its own name by mandamus or other suit, action or proceeding at law or in equity to enforce all rights of the Owners, including the right to require the Issuer to carry out the covenants and agreements of the Issuer in the Indenture; (b) the right to bring suit upon the Outstanding Bonds; provided that any judgment obtained in any such suit against the Issuer will be payable only out of the Trust Estate; (c) the right by action or suit in equity to require the Issuer to account as if it were the trustee of an express trust for the Owners; (d) the right by action or suit in equity to enjoin any acts or things that may be unlawful or in violation of the rights of the Owners; (e) the right to apply all moneys and funds held under the Indenture (except moneys and funds that were set aside for the payment of particular Bonds and moneys and funds held in Administrative Expense Fund or the Rebate Fund) to the payments as provided in the Indenture; and (f) the right to exercise any or all other rights or remedies provided by any law (against any of the parties hereto or otherwise) or by any other suit, action or other special proceeding in equity or at law either for the specific performance of any covenant or agreement in the Indenture or in aid or execution of any power herein granted.

Notwithstanding anything to the contrary in the Indenture, the payment of principal of the Bonds shall not be accelerated. All rights of action under the Indenture or under any Outstanding Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of such Bonds or the production thereof on the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name and as Trustee of an express trust for the equal and ratable benefit of all Owners of Bonds, subject to the provisions of the Indenture. No delay or omission in respect of exercising any right or power accruing upon any default will impair such right or power or be a waiver of such default, and every remedy given by the Indenture may be exercised from time to time and as often as may be deemed expedient. If any proceeding taken by the Trustee on account of any default is discontinued or is determined adversely to the Trustee, the Issuer, the Trustee and the Owners will be restored to their former positions and rights hereunder as though no such proceeding had been taken.

The Required Owners will have the right to direct the method and place of conducting all remedial proceedings by the Trustee hereunder, provided that (a) such directions are in accordance with law and the provisions of the Indenture, (b) the Trustee has been given indemnity satisfactory to it against costs, expenses and liabilities and (c) the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

No Owner will have any right to pursue any remedy hereunder unless (i) the Trustee has been given notice of an Event of Default, (ii) the Required Owners have requested the Trustee to exercise the powers granted above or to pursue such remedy in its or their name or names, (iii) the Trustee has been offered indemnity satisfactory to it against costs, expenses and liabilities and (iv) the Trustee has failed to comply with such request within a reasonable time. Such notification, request and offer of indemnity are, at the option of the Trustee, conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy hereunder. No Owner will have any right by its action to affect, disturb or prejudice the security of the Indenture, or to enforce any right hereunder or under the Bonds, except in the manner provided herein, and all proceedings at law or in equity must be instituted, had and maintained in the manner provided herein and for the equal and ratable benefit of all Owners of Bonds affected thereby, subject to the provisions of the Indenture. Nothing in the Indenture will, however, affect or impair the right of any Owner to institute suit for the enforcement of payment of the principal or Redemption Price of and the interest on any such Bond when due and payable in accordance with its terms, upon redemption or otherwise.

All moneys received by the Trustee or by any receiver under this Article and all moneys and funds held by the Trustee under the Indenture (except the Rebate Fund and except moneys that were previously set aside for the redemption of particular Bonds) shall, after the payment of the outstanding and current administration, operating and management expenses incurred by the Trustee or receiver be applied by the Trustee or receiver in the following order of priority:

(a) to the payment of all due with respect to the Issuer's indemnification and compensation obligations described above under "Indemnification and Compensation."

(b) to the payment of all Issuer Fees to the extent not paid pursuant to the Construction Funding Agreements;

(c) unless the principal of all Outstanding Bonds has become due, whether at the due dates expressed therein, by proceedings for redemption or otherwise, then in the following order of priority:

(i) to the payment of any overdue installments of interest on the Outstanding Bonds in the order of the expressed maturity of the installments of such interest, with interest on overdue installments of interest (to the extent that the payment of such interest is enforceable under applicable law) at the respective rates provided in the Bonds and, if the amount to be applied to the payment of any installment of interest is not be sufficient to pay such installment in full, then to the payment thereof ratably, according to the amounts due on such installment, to the Owners without any discrimination or preference;

(ii) to the payment of the principal of all of Outstanding Bonds that are due by their express terms, not including Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture, with interest on such Bonds at the rate or rates provided for in such Bonds from their respective due dates in the order of maturity dates of such Bonds and, if the amount to be applied to the payment of such principal is not sufficient to pay in full the principal of all such Bonds, to the payment thereof ratably according to the amounts due thereon; and

(iii) to the payment of the principal of and the interest on the Bonds in accordance with the provisions of Article 4.

(d) If the principal of all Bonds is due, whether at the due dates expressed therein, by proceedings for redemption or otherwise, then in the following order of priority:

(i) to the payment of the full amount then owing and unpaid upon all Outstanding Bonds for principal and interest. together with interest on such unpaid amounts (to the extent that the payment of such interest is enforceable under applicable law), at the respective rates provided in such Bonds and, if the amount applied to such payment of such principal and interest is not sufficient to pay the same in full, to the payment of such principal and interest without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest ratably to the aggregate amount of such principal and interest; and

(ii) any remaining amounts, to the Agencies pro rata based on the amount of Bond proceeds deposited to their respective Project Accounts or to whomsoever may be lawfully entitled to receive the same.

(iii) Whenever moneys are to be applied by the Trustee or by any receiver pursuant to the provisions of this Section, such moneys will be applied at such times, and from time to time, as the Trustee or receiver in its sole discretion determines, having due regard to the amount of such moneys available for application in the future. The deposit of such moneys with the bank or trust company at which the Bonds are payable, or otherwise setting aside of such moneys, in trust for the proper purpose, will constitute proper application by the Trustee or receiver; and the Trustee or receiver will not incur any liability to the Issuer, any Owner or any other Person for any delay in applying any such moneys, so long as the Trustee or receiver acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with the provisions of the Indenture that are applicable at the time of application by the Trustee or receiver. Whenever the Trustee or receiver exercises such discretion in applying such moneys, it shall fix the date upon which such application is to be made, including determination of a Special Record Date and the provision of notice thereof pursuant to Section 2.7 and in the Bonds and, upon such date, interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee or receiver will not be required to make payments to any Owner of any Bond until such Bond has been surrendered to the Trustee or receiver for cancellation or stamping with reference to such payment.

**Supplemental Indentures and Amendments to Installment Payment Agreements and the Construction Funding Agreements**

The Indenture may be amended or supplemented from time to time, without the consent of the Owners, by a Supplemental Indenture authorized by a Certified Resolution of the Issuer filed with the Trustee, for one or more of the following purposes: (a) to set forth such matters as may be necessary or appropriate in connection with the issuance of Additional Bonds; (b) to add additional covenants of the Issuer or to surrender any right or power herein conferred upon the Issuer; (c) to cure any ambiguity or defect in the Indenture; and (d) to make such other changes herein as the Issuer and the Trustee deem appropriate; provided that the Indenture does not permit amendments or supplements to be made that would adversely affect the security hereof or the rights of any Owner under the Indenture.

The Indenture may be amended from time to time by a Supplemental Indenture approved by the Required Owners, provided that: (a) no amendment may be made that adversely affects one or more but less than all series of Bonds without the consent of the Owners of at least a majority in aggregate principal amount of the Bonds of each series so affected; (b) no amendment may be made that affects the rights of some but less than all the Outstanding Bonds of any one series without the consent of the Owners of at least a majority in aggregate principal amount of the Bonds so affected; and (c) no amendment that alters (i) the interest rates on, or the maturities, interest payment dates or redemption provisions of, any Bonds, (ii) the provisions of the Indenture governing amendments thereto or (iii) the security provisions hereunder may be made without the consent of the Owners of all Bonds adversely affected thereby.

The Trustee is authorized to join with the Issuer in the execution and delivery of any Supplemental Indenture or amendment permitted by the Indenture and in so doing will be fully protected by an Opinion of Counsel that such Supplemental Indenture or amendment is so permitted and has been duly authorized by the Issuer and that all things necessary to make it a valid and binding agreement have been done.

Except as otherwise described in the following paragraph, no amendment, change or modification shall be made to the Installment Payment Agreement, nor shall the Issuer or the Trustee waive any obligation or duty of any Agency thereunder without the written consent of the Required Owners, provided that no such waiver, amendment, change or modification may (i) permit termination or cancellation of any Installment Agreement or State OMB Agreements or (ii) reduce or change the due dates of the Installment Payments, without the consent of all Owners.

The Installment Payment Agreements may be amended by the Issuer and the counterparties there to, without the consent of the Trustee or the Owners, only (a) to cure any ambiguity, inconsistency or formal defect or omission in the Installment Payment Agreements; (b) to make conforming changes with any amendment to the Indenture permitted hereunder; (c) to make any other change that, in the judgment of the Trustee, does not materially adversely affect the rights of the Owners; and to revise the Installment Payments in connection with the issuance of Additional Bonds or the redemption of Bonds. The Issuer shall provide notice of any such amendment promptly to the Trustee, but no prior notice of the Owners of the any of any such proposed amendment is required.

The Issuer may not amend any Construction Funding Agreement, or permit any amendment thereof, that would diminish the obligation of any Agency to pay its Proportionate Share of any Trustee Fees and Expenses or otherwise materially alter any of the rights or responsibilities of the Trustee under the Indenture or with respect thereto, without the written consent of the Trustee.

## Defeasance

When the interest on, and principal or Redemption Price (as the case may be) of, all Bonds have been paid, or there has been deposited with the Trustee an amount, evidenced by cash or non-callable Defeasance Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds, all right, title and interest of the Trustee will thereupon cease and the Trustee, on demand of the Issuer, shall (i) release the Indenture, (ii) execute such documents to evidence such release as may be reasonably requested by the Issuer and (iii) turn over to the Issuer or to such Person, body or authority as may be entitled to receive the same all balances remaining in any Funds or Accounts.

Provision for the payment of any Bonds will have been made when the Trustee holds in the Bond Fund or other Fund or Account established for such purpose (i) cash in an amount sufficient to make all payments (including the principal or Redemption Price of and interest on the Bonds) specified in subsection (a) above with respect to such Bonds or (ii) non-callable Defeasance Securities maturing on or before the date or dates when the payments specified above will become due, the principal amount of which and the interest thereon, when due, is or will be, in the aggregate, sufficient without reinvestment to make all such payments, provided that (A) the Trustee has received a Favorable Opinion of Bond Counsel with respect to such deposit of obligations described in clause (i) or (ii) above and (B) provision for payment of will have been made only if the Trustee holds in the Bond Fund or other Fund or Account established for such purpose cash and/or such obligations for payment of such Bonds in amounts sufficient to make all payments specified above with respect to such Bonds, as verified by an accountant's certification in form and by an accountant acceptable to the Trustee. Neither the moneys nor the obligations deposited with the Trustee as described in this paragraph with respect to any Bonds may be withdrawn or used for any purpose other than, and such obligations and moneys shall be segregated and held in trust for, the payment of the principal or Redemption Price and interest on, such Bonds.

## Discharge of Indenture

If the Issuer pays or causes to be paid to the Owners of all Outstanding Bonds the principal or Redemption Price and interest to become due thereon at the times and in the manner stipulated in the Indenture, or if the Issuer delivers or causes to be delivered to the Trustee for cancellation all Outstanding Bonds, the Indenture and the estate, title, interest and rights hereby granted will cease, determine and be void, and thereupon the Trustee shall, at the Issuer's expense, release, cancel and discharge the lien of the Indenture, and execute and deliver to the Issuer such instruments as may be required to satisfy the lien thereof and reconvey the Trust Estate to the Issuer. The Trustee will be entitled to receive an Opinion of Counsel that all conditions precedent to the discharge of the Indenture have been satisfied.

The release, cancellation and discharge of the Indenture, however, will be without prejudice to the right of the Trustee to be paid and to be protected and saved harmless by the Issuer from any and all losses, liabilities, costs and expenses, including counsel fees and expenses, including the allocated costs and expenses of in-house counsel and legal staff at any time incurred by the Trustee under the Indenture, or connected with any Bond, of and from which, if the Indenture had not been released, canceled and discharged, the Issuer would have been obligated by the terms of the Indenture to protect and save the Trustee harmless of and from such losses, liabilities, costs and expenses as provided herein.

# Guaranteed Energy Savings Agreement

The following is a summary of certain provisions of a Guaranteed Energy Savings Agreement, each of which is between an Agency and a Contractor. The Guaranteed Energy Savings Agreements are substantially the same. Reference is made to the Guaranteed Energy Savings Agreements for a complete description thereof. The discussion herein is qualified by such reference.

**Construction Work**

Contractor shall provide, in a good and workmanlike manner, all services, supervision, labor, materials and equipment, supplies, miscellaneous materials, and machinery necessary to design, engineer, procure, construct, install and commission the Equipment (the "Construction Work"). The Construction Work includes the following activities: (a) the preparation and completion of a detailed design of the Equipment; (b) the acquisition, delivery, construction, assembly and installation of the Equipment at the Premises, including the procurement, expediting, inspection, installation, construction, assembly and erection of all required structures and Equipment in accordance with the Agreement and in such a manner so as to conform to the Standards of Comfort; (c) the provision of the Equipment Operation Manual for each Site for the operation and maintenance of the Equipment at such Site; (d) commissioning and testing the Equipment; and (e) the performance of each of Contractor's obligations under Guaranteed Energy Savings Agreement (other than its obligation to provide the Monitoring Services and to pay the Guaranteed Savings Payment, if any and any obligations arising from or relating to such obligations).

**Unit Completion; Final Completion**

Construction Unit Completion of a Construction Unit will occur when the following conditions have been met:

(a) the performance of the Construction Work relating to such Construction Unit is complete, except for those items specified in a punch list for such Construction Unit, prepared by the Contractor and approved by Agency, listing all items of the Construction Work relating to such Construction Unit that have not yet been completed, which items may not, during their completion, materially impair the normal operation of the Construction Unit or activities at the Site or Sites on which such Construction Unit is or are located; and

(b) such Construction Unit has been commissioned and successfully tested to the extent required under the Guaranteed Energy Savings Agreement.

Final Completion will occur when each Construction Unit has achieved Construction Completion, all Construction Work is complete and certain other conditions are met.

**Warranties**

Contractor warrants to Agency that all Construction Work will be completed in accordance with Guaranteed Energy Savings Agreement; and all Construction Work, including all materials and equipment furnished as part of the Construction Work, will be new unless otherwise specified, of good quality, free of defects or deficiencies in materials and workmanship and will be fit for its intended purpose. The foregoing warranties with respect to each Construction Unit will be effective for a period of two years following the Construction Unit Completion Date for such Construction Unit (the "Warranty Period"). As soon as practicable following the discovery during the Warranty Period of a deficiency that is covered by the foregoing warranties, Contractor shall, without materially interfering with the activities at the Premises, (a) correct such deficiency by, at its option, redesigning, repairing or replacing the defective Work and (b) demonstrate to the reasonable satisfaction of Agency, by testing or otherwise, that the deficiency has been corrected. The warranty with respect to any portion of the Work in which a deficiency was corrected during the Warranty Period will be effective for a period of one year following the date of such correction or completion, provided that in no event shall such an extended warranty be effective more than one year after the Warranty Period. Except as provided in the Guaranteed Energy Savings Agreement, Contractor makes no warranties or representations of any kind, whether statutory, written, oral or implied, including warranties as to the value, design, and condition or fitness for use or particular purpose and merchantability, regarding the Construction Work or any services provided under the Guaranteed Energy Savings Agreement.

**Installment Payments**

In consideration for the performance of the Construction Work and to induce the Issuer to enter into the Construction Funding Agreement, Agency agrees to enter into the Installment Payment Agreement and to pay Installment Payments thereunder in accordance with its terms.

**Guaranteed Energy Savings Payments**

Contractor shall pay to Agency, for any Savings Year, the amount, if any, by which the Energy Savings Guarantee exceeds the total Energy Savings for such Savings Year (the "Guaranteed Savings Payment")

Contractor covenants that the amount of the Energy Savings Guarantee for each Savings Year will exceed the amount of Installment Payments payable with respect to such Savings Year in the absence of adjustments resulting from a Change Order or Material Change. If the Installment Payment Agreement has a payment schedule for a period of years less than the term of the Guaranteed Energy Savings Agreement, the foregoing covenant will be measured on an aggregate basis over the term of the Guaranteed Energy Savings Agreement and the Installment Payment Agreement respectively rather than on an annual basis.

**Term**

Guaranteed Energy Savings Agreement will be effective on the date set forth in the first paragraph hereof and will continue in effect until the 20th anniversary of the Final Completion Date, unless sooner terminated in accordance with its terms.

**Permitted Changes**

Contractor may, without Agency's consent, implement a Change consisting of minor and immaterial modifications to the Work that will improve an item of Equipment or to take into account conditions of a Site or changes in technology or in Equipment being supplied by others, provided that any such modification (a) will not result in a Material Change, (b) is consistent with the intent of Guaranteed Energy Savings Agreement and (c) will not increase the costs of operating and maintaining, or adversely affect the operating or maintenance characteristics of, the Equipment. Contractor shall notify Agency of any Change provided for in the Agreement prior to performing it, and shall provide to Agency, a detailed description thereof.

**Material Change**

If Agency plans to undertake any activity, or otherwise becomes aware of a circumstance, that could reasonably be expected to result in a Material Change, it shall promptly deliver a notice to Contractor describing such activity or circumstance. At Agency's request and expense, Contractor will provide to the Agency an estimate of the effect that such anticipated Material Change would have on Agency's energy consumption. If an unanticipated Material Change occurs, Agency shall notify Contractor as soon as practicable thereafter. Contractor and Agency will work together to investigate, identify and, if applicable, correct the cause of any Material Change. If a Material Change occurs, the parties will agree on an adjustment to the calculation of Energy Savings and the Energy Savings Guarantee, in accordance with the Measurement and Verification Plan.

**Events of Default**

Each of the following events or conditions will be an "Agency Event of Default": (a) a failure by Agency to pay any amount due Contractor hereunder or under the Installment Payment Agreement within 30 days after such payment becomes due; (b) any other material failure by Agency to perform or comply with the terms and conditions of Guaranteed Energy Savings Agreement or the Installment Payment Agreement, including breach of any covenant contained herein and such failure continues for 30 days after notice to Agency specifying the failure and demanding that the failure be cured or, if the failure cannot reasonably be cured within such 30-day period, such longer period not to exceed 90 days so long as Agency is attempting to remedy the default as quickly as practicable; and (c) any representation or warranty made by Agency in the Guaranteed Energy Savings Agreement was false or misleading in any material respect when made and Agency fails to correct any material adverse consequences to Contractor directly caused thereby within 30 days after notice of such failure has been given to Agency by Contractor.

**Events of Default by Contractor**

Each of the following events or conditions will be an Event of Default by the Contractor: (a) a failure by Contractor to pay any other amount due Agency hereunder within 30 days after such payment becomes due; (b) any other material failure by Contractor to perform or comply with the terms and conditions of Guaranteed Energy Savings Agreement, including breach of any covenant contained herein and such failure continues for 30 days after notice to Contractor specifying the failure and demanding that the failure be cured or, if the failure cannot reasonably be cured within such 30-day period, such longer period not to exceed 90 days so long as Contractor s attempting to remedy the default as quickly as practicable; and (c) any representation or warranty made by Contractor in the Guaranteed Energy Savings Agreement was false or misleading in any material respect when made and Contractor fails to correct any material adverse consequences to Agency directly caused thereby within 30 days after notice of such failure has been given to Contractor by Agency.

**Insolvency of Contractor**

If Contractor becomes insolvent, or institutes or has instituted against it a case under Title 11 of the United States Code, or makes a general assignment for the benefit of its creditors, or if a receiver is appointed for the benefit of its creditors, or if a receiver is appointed on account of insolvency, such event or events could impair or frustrate Contractor's performance of the Agreement. Accordingly, it is agreed that upon the occurrence of any such event, Agency will be entitled to request of Contractor or its successor assurances of future performance that are adequate in the opinion of Agency. Failure to satisfy such requirement within ten days following delivery of the request will entitle Agency to terminate Guaranteed Energy Savings Agreement under the terms of the Agreement. Pending receipt of adequate assurances of performance and actual performance in accordance therewith, Agency will be entitled to complete the Work with its own forces or with other contractors on a time-and-material or other appropriate basis, and Contractor shall pay to Agency, on demand, the excess, if any, of the reasonable costs of completing the Construction Work over the balance of the Bond proceeds available therefor.

**Insurance**

The Contractor, at its own expense, shall procure and maintain, during the term of Guaranteed Energy Savings Agreement, the insurance as set forth in the Agreement. All insurers must be licensed by the State and rated A:Vll or better by A.M. Best or a comparable rating service. At Agency's request from time to time, Contractor shall submit to Agency (i) certificates of insurance evidencing that such insurance coverage is in effect or (ii) a certified copy of any applicable policy of insurance. Contractor shall pay all deductibles under such policies. All policies must provide that they cannot be canceled or reduced or lapse without at least 30 days' prior notice to Agency.

## Assignment

The Guaranteed Energy Savings Agreement may not be assigned by either party, directly or by merger or other operation of law, without the consent of the other party. Any purported assignment of the Guaranteed Energy Savings Agreement in violation of the assignment provision thereof will be null and void.

## Installment Payment Agreement

The following is a summary of certain provisions of an Installment Payment Agreement, each of which is between the Issuer and an Agency and is part of the Trust Estate pledged by the Agency to the Trustee in the Indenture. The Installment Payment Agreements are substantially the same. Reference is made to the Installment Payment Agreements for a complete description hereof. The discussion herein is qualified by such reference.

### Installment Payments

The Agency shall make payments to the Issuer in the amounts and at the times set forth therefor in the Installment Payment Agreement (each, an "Installment Payment"). Agency shall make the Installment Payments without the need for presentation by the Issuer of an invoice therefor.

### Nature of Agency's Obligations

Agency's obligations under the Installment Payment Agreement are absolute and unconditional and will remain in full force and effect until all Installment Payments have been paid in full and will not be affected, modified or impaired by the occurrence of any event or circumstance, including termination of the Guaranteed Energy Savings Agreement for any reason, including the default or failure of Contractor fully to perform any of its obligations under the Guaranteed Energy Savings Agreement, provided that the Installment Payments will be payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance Contracting Act.

### No Set-Off

Agency shall pay all Installment Payments without set-off or reduction notwithstanding any obligation owed by Contractor to the Agency under the Guaranteed Energy Savings Agreement or otherwise.

### Default

Failure to pay any Installment Payment on or before the date specified therefor in the Installment Payment Agreement will constitute an "Event of Default" under the Installment Payment Agreement.

### Remedies

Upon the occurrence of any Event of Default, the Issuer may take any available action at law or in equity to enforce its rights to payment hereunder but may not accelerate the remaining Installment Payments

### Assignment

Neither party may assign the Installment Payment Agreement directly or by merger or otherwise by operation of law without the prior consent of the other party, except that, without such consent, the Issuer may make a current assignment of the Installment Payment Agreement to the Trustee. Any purported assignment of the Installment Payment Agreement in violation of assignment provision thereof section will be null and void.

## Construction Funding Agreement

The following is a summary of certain provisions of a Construction Funding Agreement, each of which is among the Issuer, an Agency and the related Contractor. The Construction Funding Agreements are substantially the same. Reference is made to the Construction Funding Agreements for a complete description thereof. The discussion herein is qualified by such reference.

### Construction Price

The Issuer shall cause the Trustee to pay the Construction Price to the Contractor pursuant to the Indenture, in installments as the Construction Work progresses . The amounts of such payments will be determined in accordance with the completion of milestones set forth in the Construction Funding Agreement. All applications for payment must be approved (or deemed to have been approved in accordance with the Construction Funding Agreement) by the Agency. The Construction Price under each Guaranteed Energy Savings Agreement is set forth in Appendix E to this Official Statement.

### Termination of the Guaranteed Energy Savings Agreement

If the Energy Savings is terminated prior to Final Completion: the Agency shall give the Issuer and the Trustee notice thereof concurrently with the delivery of a termination notice to the Contractor; the Contractor's rights to make application for payment to the Trustee pursuant to the Construction Funding Agreement will terminate except with respect to any amounts then payable pursuant to the Guaranteed Energy Savings Agreement; within 30 days after delivery of such notice, the Agency shall, in its discretion, either (a) enter into a new agreement meeting the requirements of the Energy Performance Contracting Act with another contractor and in form and substance reasonably acceptable to the Issuer and cause the new contractor to execute and deliver to the Issuer and the Trustee a joinder to the Construction Funding Agreement by which it becomes a party thereto; or (b) notify the Issuer and the Trustee that it does not intend to enter into such a new agreement.

If the Agency enters into a new agreement, it shall deliver to the Issuer and the Agency a certificate stating that funds then on deposit in its Project Account, together with the Agency's own funds, will be sufficient to complete the Project. In such case, the Issuer will resume making progress payments in accordance with the Construction Funding Agreement. If the Agency does not satisfy such conditions within the 30-day period described in the Construction Funding Agreement, or such longer period as to which the Issuer may agree, the Construction Funding Agreement will automatically terminate.

### Project Funding

The Contractor and the Agency acknowledge that no funds or resources of the Issuer other than funds on deposit in the related Project Account will be available to pay the Construction Price.

### Amendments to Guaranteed Energy Savings Agreements

The Contractor and the Agency may not amend the Guaranteed Energy Savings Agreement to reduce the amount of the Guaranteed Energy Savings below the amount of the Installment Payments without the consent of the Issuer and then, only if (a) the Agency causes the Issuer to redeem Bonds as described below under "Redemption of Bonds" 3 and (b) the Agency and the Contractor deliver a certificate to the Issuer stating that, to their best belief, the value of the Energy Savings for each remaining year of the term of the Energy Savings Agreement, after giving affect to such amendment, will not be less than the amount of the Installment Payments for such year.

**Additional Bonds**

If the proceeds of the Series 2011 Bonds deposited into the Agency Project Account are insufficient to complete the Project, and the Issuer determines that Additional Bonds can be marketed on terms acceptable to the Agency, then, at the request of the Agency, the Issuer shall use commercially reasonable efforts to issue Additional Bonds subject to the following conditions:

(a) the Agency executes delivers to the Issuer an amendment to the Installment Payment Agreement executed by the Agency whereby the amounts of the Installment Payments will increased to amounts that will be sufficient to pay (i) interest on and the principal or redemption price of the Additional Bonds when due and (ii) the Agency Proportionate Share of the principal or redemption price of, and interest on, all previously issued Bonds when due, as confirmed by a certificate of a Financial Advisor;

(b) the Contractor and the Agency enter into an amendment to the Energy Savings Agreement to increase the Construction Price accordingly;

(c) the requirements in the Indenture for the issuance of Additional Bonds have been met; and

(d) the Agency pays all costs of issuance of the Additional Bonds to the extent not paid out of the proceeds of the Additional Bonds.

If more than one Agency requests the Issuer to issue Additional Bonds for its Projects, the Issuer may issue a single series of Additional Bonds to provide funds to complete such Projects. In such case, the amounts described in clause (a)(i) above and in subsection (d) above will be prorated based on the respective amounts of Additional Bond proceeds deposited into the Project Accounts of such Agencies.

**Redemption of Bonds**

At the request of an Agency, the Issuer shall cause the Trustee to redeem or defease Bonds as and when permitted under the terms of the Indenture in such principal amount as such Agency may request, provided that such Agency delivers funds to the Trustee in the amount necessary to make such redemption or defeasance.

Following any such redemption or defeasance, the Trustee and the Agency shall amend the applicable Installment Payment Agreement to reduce the amount of the Installment Payments thereunder to an amount that, after giving effect to such amendment, will be sufficient to pay interest on and the principal or redemption price on all Agency Allocable Bonds Outstanding, when due, as confirmed by a certificate of a Financial Advisor.

**Issuer and Trustee Fees and Expenses**

The Agency shall pay its Proportionate Share of the Issuer's annual fee and the Trustee's annual fee as provided in the Installment Payment Agreement and further agrees to pay to the Issuer or the Trustee any other applicable fees and expenses under the Indenture or the Construction Funding Agreement.

**Assignment**

The Issuer may assign Construction Funding Agreement to the entity acting as trustee for the owners of the Bonds as security for the Bonds but the Construction Funding Agreement may not otherwise be assigned by either party, directly or by merger or other operation of law, without the consent of the other party. Any purported assignment of the Construction Funding Agreement in violation of the assignment provisions thereof will be null and void.

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**Appendix E**

## Project Information

### I. Project Participants and Construction Price

| Agency | Contractor | Related Agreements and Construction Price |
|---|---|---|
| Department of Correction | NORESCO, LLC | Guaranteed Energy Savings Agreement dated as of July 15, 2011 between the Agency and the Contractor<br>Construction Price: $39,069,088<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |
| Delaware Department of Services for Children, Youth and Their Families | NORESCO, LLC | Guaranteed Energy Savings Agreement dated as of July 15, 2011 between the Agency and the Contractor<br>Construction Price: $2,185,416<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |
| Delaware State University | Johnson Controls, Inc. | Guaranteed Energy Savings Agreement dated April 11, 2011 between the Agency and the Contractor<br>Construction Price: $11,260,925<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |

| Agency | Contractor | Related Agreements and Construction Price |
|---|---|---|
| Office of Management and Budget | Trane U.S., Inc. | Guaranteed Energy Savings Agreement dated as of July 15, 2011 between the Agency and the Contractor<br>Construction Price: $2,535,000<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |
| Office of Management and Budget | Ameresco, Inc. | Guaranteed Energy Savings Agreement dated as of July 15, 2011 between the Agency and the Contractor<br>Construction Price: $7,079,809<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |
| Office of Management and Budget | Honeywell Building Solutions | Guaranteed Energy Savings Agreement dated as of July 15, 2011 between the Agency and the Contractor<br>Construction Price: $6,692,504<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |
| Delaware Technical and Community College | Pepco Energy Services, Inc. | Guaranteed Energy Savings Agreement dated as of July 15, 2011 between the Agency and the Contractor<br>Construction Price: $6,279,952<br>Construction Funding Agreement among the Issuer, the Agency and the Contractor<br>Installment Payment Agreement between the Agency and the Issuer |

## II. Projects by Agency

**Department of Correction**

- Adding a new booster pump system to the domestic water system at Howard R. Young Correctional Institution.
- Decommission central boiler plant. Provide point-of-use space heating and domestic hot water heating sources at buildings in the James T. Vaughn Correctional Center and run new natural gas distribution system and digital control equipment.

- Install demand control ventilation on select air-handling units at Sussex Correctional Institution and Howard R. Young Correctional Institution. Include $CO_2$ sensors tied to existing direct digital control systems to control outside-air damper position and the volume of outside air admitted to each facility.
- Upgrade communications software and technology for existing energy management system at Sussex Correctional Institution.
- Make program changes to temperature setup/setback programming for Sussex Correctional Institution and Howard R. Young Correctional Institution.
- Conduct energy management training for engineering staff on new energy management system at Sussex Correctional Institution.
- Upgrade communications infrastructure for energy management system at Sussex Correctional Institution (multiple buildings). Retro-commission the existing hard-wired points to ensure functionality.
- Replace water cooled ice machine units with air-cooled condensers at Sussex Correctional Institution and James T. Vaughn Correctional Institution.
- Install programmable thermostats to accommodate specific usage pattern and comfort levels on select buildings at James T. Vaughn Correctional Institution and Sussex Correctional Institution.
- Upgrade, retrofit or replace existing lighting systems with efficient lamp and ballast combinations at Howard R. Young Correctional Institution, James T. Vaughn Correctional Institution and Sussex Correctional Institution. Install occupancy sensors.
- Install ozone injection system in laundry facility at James T. Vaughn Correctional Institution, Sussex Correctional Institution and Howard R. Young Correctional Institution.
- Replace pre-rinse sprayers with low flow high pressure pre-rinse sprayer nozzles at James T. Vaughn Correctional Center and Sussex Correctional Institution.
- Install new natural gas distribution system and retrofit space heating and domestic water heating devices from propane to natural gas at Sussex Correctional Institution.
- Install water conservation and controls and plumbing fixtures at Howard R. Young Correctional Institution, James T. Vaughn Correctional Institution and Sussex Correctional Institution
- Replace water filtration system at Howard R. Young Correctional Institution.

**<u>Department of Services for Children, Youth and Their Families</u>**

- Retrofit or replace existing lighting systems at Murphy Cottage, Administration Building, Grace Cottage, Cleveland White Building, Mowlds Cottage, Snowden Cottage, New Castle Community Detention Center, Ferris School, Terry Center and Stevenson House.
- Install occupancy sensors to automatically shut lights off in areas that are unoccupied for a specific time intervals at Mowlds Cottage and Stevenson House.
- Replace or modify existing toilets, faucets and fixtures to reduce water and energy consumption at Murphy Cottage, Administration Building, Grace Cottage, Cleveland White Building, Mowlds Cottage, Snowden Cottage, New Castle Community Detention Center, Ferris School and Stevenson House
- Replace one of the two cooling towers at Terry Center with a new forced-draft, open-loop counter-flow tower.
- Install two-position condenser water control valves at each heat pump and reprogram existing variable frequency drives on the two lead water pumps in the New Castle County Detention Center.
- Replace existing variable frequency drives on the four largest air handlers with new variable frequency drives at Ferris School.

- Replace two existing variable frequency drives with new variable speed drives at Terry Center. Duct system static pressure setpoints for each air handler will be validated and reset. Flow rate set points for each VAV box will be reset to the original design specifications.
- Replace existing manual cooling tower bypass and isolation valves with new actuated valves to be controlled by the existing building automation system at the Administration Building and New Castle Community Detention Center.
- Replace the existing Stevenson House building automation and improve the programming and operation of HVAC system. Building controllers and front-end interfaces will be replaced with automated logic control devices.
- Retro-commission the existing building automation system programming at the Ferris School.
- Renovate handicap entrance at the Administration Building to minimize air infiltration.

**Delaware State University**

- Retrofit the existing lighting system with energy-efficient lamps, ballasts, compact fluorescent lamps, and energy efficient lighting fixtures campuswide.
- Install lighting sensors to optimize the lighting systems campuswide.
- Install occupancy-based vending machine controls campuswide.
- Reduce air infiltrations by sealing the cracks, gaps and openings where unintended airflow occurs campuswide.
- Install demand control ventilation to provide dynamic control of ventilation air in the following buildings: Administration and Services, Bank of America, Conrad Hall, Education and Humanities, MLK Student Center, Mishoe Science Center South, John R. Price and Wellness Center Pool.
- Modify building management system functions and energy management strategies including automated alarming, monitoring and control of major HVAC equipment campuswide.
- Replace the dual-fuel boilers in Harriet Tubman and RS Grossley Halls.
- Implement domestic water conservation measures campuswide.
- Install a control system that determines kitchen extract volume based on the equipment load under the hood or uses face velocity methods based on the size of the hood/canopy in MLK Center.
- Install variable frequency drives on cooling tower fan motors and HVAC supply and return fan motors, and hydronic pumps in the following buildings: Education and Humanities, Luna I. Mishoe Center North, Luna I. Mishoe Center South and William C. Jason Library.
- Provide new roof board insulation which includes thermal barrier sheet flashing for the John R. Price Building.
- Replace an existing chiller and cooling tower in ETV and chiller in William C. Jason Library.
- Replace air handling units at Baker Extension Building, Education and Humanities Building, William C. Jason Library, Meta V. Jenkins and Medgar Evers Hall.
- Provide a new domestic hot water system for Conwell Hall utilizing gas-fired condensing boiler and storage tank system.
- Install efficient motors that offer the most in energy conservation savings while also driving down maintenance costs in Mishoe Center North and Mishoe Center South.
- Provide light commercial and commercial heating system economizers for heating systems campuswide
- Centrally manage and reduce PC energy consumption within the IT infrastructure for Grossley Hall.
- Install a web-based, user-friendly energy and emissions information management system to measure, manage, reduce, verify and forecast usage, cost and emissions.

**Office of Management and Budget**

- Retrofit the existing lighting system with newer technology energy-efficient lamps, ballasts and lighting fixtures and install occupancy sensors and daylight harvest controls at Public Archives, W.A.R. Building, Jesse Cooper Building, Haslet Armory Building, Townsend Building, O'Neill Building, Legislative Hall, Tantall Hall, Credit Union Building, Kent Family Court Building, Sykes Building, Old State Building, Short Building and Kirk Building.
- Replace or modify existing toilets and fixtures to reduce water and energy consumption at Public Archives, W.A.R. Building, Jesse Cooper Building, Haslet Armory Building, Townsend Building, O'Neill Building, Legislative Hall, Tantall Hall, Credit Union Building, Kent Family Court Building, Sykes Building, Old State Building, Short Building and Kirk Building.
- Control system upgrades for Jesse Cooper, Townsend Building, O'Neill Building, Supreme Court Building, W.A.R. Building, Tatnall Hall, Sykes Building, Short Building, Kirk Building, Biggs Museum, Public Archives, Old State House, Haslett Armory and Kent Family Court, including global energy savings strategies including set/scheduling adjustments, equipment scheduling, optimal start for HVAC, hot water reset, demand controlled ventilation, optimize hot water usage, real time demand management, demand curtailment, retro-commissioning, air handler discharge and supply resets, occupancy sensors, control testing and repair, exhaust fan control, variable air volume adjustment, electric metering and system monitoring.
- Building envelope improvements (sealing, insulation, weather stripping) at Legislative Hall, Cooper Building, Townsend, O'Neill Building, Credit Union Building, W.A.R. Building, Tatnall Hall, Sykes Building, Short Building, Biggs Museum, Public Archives, Supreme Court Building, Old State House, Kirk Building and Kent Family Court.
- Upgrade boilers at Legislative Hall.
- Install domestic natural gas hot water heaters at O'Neill and Credit Union Building.
- Install cooling system retrofits, including chiller and chilled water pump replacements at the Townsend Building and repipe the cooling heat exchanger at Public Archives.
- Install new cooling tower at the Tatnall Hall.
- Install air handling unit retrofits, including new duct system for dehumidification units, dampers and dewpoint temperature sensors for Public Archives.
- Install heat pump retrofits at Legislative Hall.
- Install systems to provide power factor, harmonic filtration, and surge and spike suppression in Biggs Museum, Supreme Court Building and Kent Family Court.
- Install new distribution transformers in Townsend Building, Biggs Museum, Public Archives and Haslet Armory.
- Install new chiller with modified controllers and variable frequency drive provided for cooling tower fan and controls at Sussex County Courthouse building.
- Install new natural gas-fired boilers and extend gas piping to Sussex County Courthouse building.
- Replace filters in the air handlers with electrostatic dynamic air filters at Sussex County Courthouse building.
- Modify sequences to provide efficient operation of mechanical systems at Sussex County Courthouse building.
- Retrofit lighting fixtures and install high efficiency lamps with occupancy sensors and new emergency lighting control unit at Sussex County Courthouse building.
- Replace filters in the air handlers with electrostatic dynamic air filters at Sussex County Courthouse Annex building.
- Retrofit lighting fixtures and install high efficiency lamps with occupancy sensors and new emergency lighting control unit at Sussex County Courthouse Annex building.

- Modify sequences to provide efficient operation of mechanical systems at Sussex County Courthouse Annex building.
- Replace rooftop units with gas heated variable air volume rooftop units at Sussex County Courthouse Annex building.
- Replace filters in the air handlers with electrostatic dynamic air filters at Sussex County Court of Chancery building.
- Modify sequences to provide efficient operation of mechanical systems at Sussex County Court of Chancery building.
- Retrofit lighting fixtures and install high efficiency lamps with occupancy sensors and new emergency lighting control unit at Sussex County Court of Chancery building.
- Install natural gas fired boilers and connect to hot water heating system at Sussex County Court of Chancery building.
- Install high efficiency chiller and provide chilled water pumps and piping between chiller and air handlers at Sussex County Court of Chancery building.
- Retrofit lighting fixtures and install high efficiency lamps with occupancy sensors and new emergency lighting control unit at Sussex County Family Court building.
- Install two gas fired boilers and connect to hot water distribution system at Sussex County Family Court building.
- Retrofit lighting fixtures and install high efficiency lamps with occupancy sensors and new emergency lighting control unit at the Carvel Building and Richardson and Robbins Building.
- Install new lighting controls at the Carvel Building and Richardson and Robbins Building.
- Upgrade emergency management control system and commission HVAC systems at the Carvel Building and Richardson and Robbins Building.
- Recondition fume hoods in the Richardson and Robinson Building.
- Install new variable frequency drives on the fans with new control programming at the Carvel Building and Richardson and Robbins Building.
- Install premium efficiency motors at in the Carvel building.
- Insulate domestic hot water piping in the Carvel Building.
- Install variable frequency drives on the condenser system serving the water cooled condensers and heat pumps at the Carvel Building.
- Install premium efficiency transformers at the Carvel Building and Richardson and Robbins Building.
- Install new flush valves in the Carvel Building and Richardson and Robbins Building.
- Replace water source heat pumps with high efficiency units at the Carvel Building.
- Install photovoltaic power generating systems at the Carvel Building and Richardson and Robbins Building.
- Perform building efficiency measures, including window replacement, at the Richardson and Robbins Building.
- Install new boilers at the Richardson and Robbins Building.
- Upgrade HVAC units at the Richardson and Robbins Building.

**<u>Delaware Technical and Community College</u>**

- Replace lighting system, lamps and ballasts with energy saving lighting in Terry Building, Building 200, Office of the President, Science and Engineering Technology Building, Conference and Training Center Building, Educational and Training Building and Building 600.
- Replace existing 8.5 ton cooling unit with high efficiency system in Terry Building.
- Replace existing 15 ton cooling unit with high efficiency unit in Terry Building.
- Replace existing motors at the Terry Building with new high efficiency motors.

- Replace the existing DX cooling coils with chilled water coils in the ten (10) AHUs at Conference Training Center building and to replace the existing 160 Ton Trane screw chiller at Science and Energy Technology Building with one (1) new Trane 240 Ton electric Centrifugal Water Cooled chiller.
- Replace two (2) existing rooftop packaged DX units with two (2) new high efficiency Lennox 7.5 ton Roof top Packaged DX units.
- Windows replaced at Terry Building.
- Seal leaks in roofs, windows and doors at Terry Building, Building 200, Office of the President, Science and Engineering Technology Building, Conference and Training Center and Educational and Training Building.
- Replace lighting system, lamps and ballasts, with energy saving lighting at the Wilmington Campus and Stanton Campus**.**
- Install low flow bathroom fixtures at the Wilmington Campus and Stanton Campus.
- Convert the existing constant volume condenser water loop to variable volume loop by installing variable frequency drives, two-way valves, thermostats and differential pressure sensor at Wilmington Campus Southeast Building and the Stanton Campus.
- Replace existing dry transformers with new high efficiency transformers at the Wilmington and Stanton campuses.
- Modify lab fume hoods at Wilmington Campus Southeast Building and Stanton Campus Wing E.
- Install variable frequency drives on the cooling tower fan motors and replace the positive closure damper assemblies at the Wilmington Campus Southeast Building and Wilmington Campus West Building.
- Install an Energy Management System for the walk-in-box units at the Stanton Campus kitchen and Culinary arts area
- Install ice machine energy recovery units at the Stanton Campus and Wilmington Campus Southeast Building.
- Replace existing gas fired generator with a new standby power system which includes a generator and automatic transfer switch at the Wilmington Campus West Building.
- Convert the existing chilled water loops at Wilmington Campus East Building and Stanton Campus to variable volume chilled water pumping system.
- Convert constant volume existing rooftop unit to variable volume at the Wilmington Campus Childhood Development Center and Stanton Campus Gymnasium.
- Replace gas and electric domestic water heaters at Stanton Campus with efficient gas-fired condensing water heaters.
- Install a variable frequency drive on chiller #2 at Wilmington Campus East Building.
- Replace existing motors with high efficiency motors at the Wilmington Campus East Building.
- Seal leaks in roofs, windows and doors at Stanton Campus, Wilmington Campus West Building, Wilmington Campus East Building, Wilmington Campus Southeast Building and Wilmington Campus Childhood Development Center.
- Installation of a solar domestic hot water system to supplement kitchen hot water use at the Stanton Campus Wing A Kitchen Area.
- Install demand based ventilation at Stanton Campus.
- Install new variable air volume kitchen hood system at the Stanton Campus.
- Installation of automated irrigation systems for Stanton Campus sports fields.

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**Appendix F**

**Proposed Form of Opinion of Bond Counsel**

[Closing Date]

Sustainable Energy Utility, Inc.
278 Graham Hall
Center for Energy and Environmental Policy
Newark, Delaware 19716

RE: $67,435,000 Sustainable Energy Utility, Inc. <u>Energy Efficiency Revenue Bonds, Series 2011</u>

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by Sustainable Energy Utility, Inc. (the "*Issuer*") of the revenue bonds described in the caption above (the "*2011 Bonds*"). The Issuer is a nonprofit corporation created in 2007 by and for the benefit of the State of Delaware (the "State") pursuant to the Delaware Energy Act, 29 Del. C. § 8059 (the "SEU Authorizing Act"), to coordinate and promote the use of sustainable energy in the State. The 2011 Bonds are issued pursuant to the SEU Authorizing Act, certain resolutions of the Issuer, and a Trust Indenture dated as of August 1, 2011 (the "*Indenture*"), between the Issuer and Citibank, N.A., as trustee (the "*Bond Trustee*").

Capitalized terms used but not otherwise defined herein have the meanings set forth in the Indenture.

The 2011 Bonds are being issued by the Issuer generally for the purpose of financing energy conservation measures (the "Projects") on behalf of the following Agencies (as defined in the SEU Authorizing Act): the Delaware Department of Correction, Delaware Department of Services for Children, Youth and Their Families, Delaware Office of Management and Budget, Delaware State University and Delaware Technical and Community College. The proceeds of the 2011 Bonds will be applied to pay: (i) the costs of the Projects, including reimbursement of Project costs paid on behalf of Delaware State University under the Interim Funding Agreement dated April 11, 2011, between the Issuer and Delaware State University; (i) the payment of capitalized interest on the 2011 Bonds during the period of construction and installation of the Projects; and (iii) the costs of issuing the 2011 Bonds (including the payment of certain program costs of the Issuer).

In connection with each Project: (i) the applicable Agency has entered into a Guaranteed Energy Savings Agreement with the designated energy service company for the purpose of constructing, installing and equipping the Project; (ii) the Issuer, such Agency and the designated energy service company have entered into a Construction Funding Agreement under which the Issuer agrees to cause the Bond Trustee to pay the costs of such Project to the energy service company out of the proceeds of the 2011 Bonds; and (iii) such Agency has delivered or caused to be delivered on its behalf an Installment Payment Agreement pursuant to which it has agreed to make or cause to be made installment payments ("Installment Payments") in the amounts and at the times specified therein, which, together with the Installment Payments of each other Agency, have been calculated to be sufficient to pay the principal and redemption price of, and interest on the 2011 Bonds when due. The undertakings of the Projects by the Agencies are authorized pursuant to the Delaware Energy Performance Contracting Act, 29 Del. C. §

6972, and the Installment Payments of each Agency are payable solely from certain future appropriations of the State as authorized thereunder.

The Issuer has made certain representations and covenants in the Indenture and in a Tax Compliance Agreement delivered on the date hereof that are material to the opinions expressed herein, including representations as to their reasonable expectations on the date hereof regarding the uses of the proceeds of the 2011 Bonds in connection therewith. For the purpose of rendering the opinions expressed herein, we have relied upon the accuracy of all such representations without undertaking to verify the same by independent investigation and have assumed the ongoing compliance by the Issuer with such covenants. We have also relied, without independent investigation, upon the opinion of Thomas Preston, General Counsel for Delaware State University, with respect to the status of Delaware State University as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and other matters described therein.

In our capacity as Bond Counsel, we have examined such documents, records, proceedings, statutes (including the SEU Authorizing Act) and decisions as we have deemed necessary to enable us to express our opinion set forth below, including original counterparts or certified copies of all proceedings of the Issuer with respect to the approval and issuance of the 2011 Bonds, the Indenture, and the Project Documents (as defined in the Indenture). We have also examined a specimen of a fully executed 2011 Bond and the certification of the Trustee, upon which we have relied, as to the due authentication by the Trustee of the 2011 Bonds. In rendering our opinion, we have relied upon the genuineness, authenticity, truthfulness and completeness of all documents, records, and other instruments examined. We have not undertaken to verify the factual matters set forth therein by independent investigation.

Except as set forth in paragraph 4 below, our opinion is given only with respect to the laws of the State as enacted and construed on the date hereof.

Based on the foregoing, and subject to the assumptions and qualifications stated herein, it is our opinion that:

1. The Issuer is nonprofit corporation created by and on behalf of the State in accordance with the SEU Authorizing Act, and organized and validly existing under the laws of the State, with all requisite power and authority to enter into the Indenture, to perform its obligations thereunder, and to issue the 2011 Bonds.

2. The Indenture has been duly authorized, executed, and delivered by the Issuer and constitutes the valid and binding obligation of the Issuer, enforceable in accordance with their terms, except as such enforcement may be limited by bankruptcy, insolvency, moratorium, and other laws and equitable principles affecting the rights of creditors.

3. The 2011 Bonds have been duly authorized, executed, and delivered by the Issuer and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms and entitled to the benefit and security of the Indenture, as applicable, except as enforcement may be limited by bankruptcy, insolvency, moratorium, and other laws and equitable principles affecting the rights of creditors.

4. Under existing law as enacted and construed on the date hereof, interest on the 2011 Bonds is excluded from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the individual and corporate federal alternative minimum tax; but interest on the 2011 Bonds is included in the "adjusted current earnings" for purposes of computing alternative minimum taxable income with respect to certain corporations.

5. The Bonds, and the interest payable thereon, are exempt from taxation by the State or any political subdivision thereof.

The opinion expressed in paragraph 4 above is subject to continuous compliance by the Issuer with its covenants in the Indenture to satisfy certain provisions of the Code, as amended. Failure to comply with such covenants could cause the interest on the 2011 Bonds to be included in gross income of the owners thereof, in certain cases retroactive to the date of issue of the 2011 Bonds regardless of the date at which such non-compliance occurs or is ascertained.

Ownership of the 2011 Bonds may result in collateral Federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, S corporations receiving substantial passive income and Subchapter C earnings and profits, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits, foreign corporations that may be subject to the foreign branch profits tax, and taxpayers who may be deemed to have incurred indebtedness to purchase or carry the 2011 Bonds. We express no opinion with respect to these collateral tax consequences.

We express no opinion herein with respect to, and assume no responsibility for the accuracy or completeness of, any offering materials prepared in respect of the 2011 Bonds.

We call your attention to the fact that the 2011 Bonds are limited obligations of the Issuer payable only out of the Trust Estate (as such term is defined in the Indenture) and certain other moneys available therefor as provided in the Indenture and that the 2011 Bonds do not pledge the credit or taxing power of the State or any political subdivision thereof.

Very truly yours,

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**Appendix G**

**Proposed Form of Continuing Disclosure Undertaking**

**CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement is executed and delivered by the State of Delaware (as more fully described below, the "State"), on behalf of the Agencies (defined below), and Sustainable Energy Utility, Inc. (the "Issuer") in connection with the issuance of the Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011, in the aggregate principal amount of $67,435,000 (the "Bonds").

The Bonds will be issued pursuant to a Trust Indenture, dated as of August 1, 2011 (the "Indenture"), from the Issuer to Citibank, N.A. (the "Trustee"). Proceeds from the sale of the Bonds will fund projects (the "Projects") consisting of the design, construction and installation of certain energy conservation measures at facilities of the Delaware Department of Correction ("Correction"), the Delaware Department of Services for Children, Youth and Their Families ("Children's"), the Office of Management and Budget ("OMB"), the Delaware Technical and Community College ("DTCC") and Delaware State University ("Delaware State") (Correction, Children's, OMB, DTCC and Delaware State are each referred to herein as an "Agency" or an "Obligated Person" (as defined in the Rule) and collectively as the "Agencies").

The State and Issuer, intending to be legally bound, hereby covenant and agree as follows:

1. Purpose of the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the State and the Issuer for the benefit of the Holders of the Bonds and in order to assist the Participating Underwriter in complying with the Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5).

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this section, the following capitalized terms used herein shall have the following meanings:

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

"Audited Financial Statements" means financial statements pertaining to the State prepared in conformity with generally accepted accounting principles by the State and audited by a firm of independent certified public accountants.

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

"EMMA" shall mean the MSRB's Electronic Municipal Market Access System, or such other system, Internet Web site or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

"Holder" shall mean any registered holder of Bonds, provided however, that with respect to any Bond registered in a "street name" or the name of a nominee such as The Depository Trust

Company, the term "holder" shall mean the beneficial owner of that Bond as defined under SEC Rule 13d-3.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Agreement.

“MSRB” means the Municipal Securities Rulemaking Board, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“Rule” means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended, as the same may be amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

"State" shall mean the State of Delaware or successor entity that assumes by operation or law or by contract the obligations of the State under this Disclosure Agreement.

3. Provision of Annual Reports.

(a) The State shall, or cause the Dissemination Agent to, not later than the first day of the eleventh calendar month immediately following the end of the State's fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the State shall provide the Annual Report to the Dissemination Agent, if any. Given the State's current fiscal year, the obligation to provide the Annual Report occurs by not later than May 1 of each year, commencing May 1, 2012. The Audited Financial Statements may be submitted separately from the balance of the Annual Report.

(b) The Issuer shall provide to the State the information required under paragraphs 9 and 10 of Exhibit B hereto not later than the last day of the tenth calendar month following the end of the State's fiscal year.

(c) If the State is unable to provide the Annual Report to the MSRB by the date required in subsection (a), the State shall send a notice, in electronic format as prescribed by EMMA, to the MSRB through EMMA in substantially the form attached as Exhibit A.

(d) Audited Financial Statements not submitted as part of the Annual Report shall be provided to the MSRB, if and when available to the State, and in any event not more than thirty (30) days after receipt from the State's auditors. In the event that Audited Financial Statements are not submitted as part of the Annual Report, the State shall provide in lieu thereof unaudited financial statements meeting the description set forth in Section 4 hereof.

4. Content of Annual Reports.

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

(b) Such additional financial information or operating data as may be determined by the State, the Issuer and their advisors as desirable or necessary to comply with the Rule.

(c) Any or all items listed above may be included by specific reference to other documents, including official statements of debt issues by the State, which are available to the public on the MSRB website or filed with the SEC. The State or the Dissemination Agent, if any, shall clearly identify each such other document so included by reference.

5. Reporting of Significant Events.

(a) The State agrees to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds:

(1) principal and interest payment delinquencies;
(2) non-payment related defaults, if material;
(3) unscheduled draws on debt service reserves reflecting financial difficulties;
(4) unscheduled draws on credit enhancements, reflecting financial difficulties;
(5) substitution of credit or liquidity providers, or their failure to perform;
(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
(7) modifications to rights of Holders, if material;
(8) bond calls, if material, and tender offers;
(9) defeasances;
(10) release, substitution, or sale of property securing repayment of the Bonds, if material;
(11) rating changes;
(12) bankruptcy, insolvency, receivership or similar event of an Obligated Person or the Issuer, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of an Obligated Person or the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of an Obligated Person or Issuer;
(13) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the Issuer or the sale of all or substantially all of the assets of an Obligated Person or the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
(14) the appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The State agrees that its determinations of materiality for purposes of above will be made in accordance with federal securities laws.

6. MSRB; EMMA. Any filing under this Disclosure Agreement shall be made electronically by transmitting such filing to the MSRB through the EMMA system and shall be

accompanied by the identifying information prescribed by the MSRB. As of the date of this Disclosure Agreement, EMMA's disclosure service for the filing of disclosure documents is accessible at http://www.emma.msrb.org.

7. Accounting Standards. The financial statements described in Section 4 above shall be audited by either a certified public accountant or an independent public accountant and shall be prepared in accordance with both (a) generally accepted accounting principles applicable in the preparation of financial statements of municipalities and other public entities as such principles are from time to time promulgated by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body ("GAAP"), and (b) applicable federal and state auditing statutes, regulations, standards and/or guidelines; provided however that the State may from time to time modify its accounting principles to the extent necessary or desirable to comply with changes in either GAAP or applicable federal and state statutes, regulations, standards and/or guidelines. The State currently utilizes a combination of modified accrual and GAAP bases for its budgeting and reporting obligations. To the extent the State shifts solely to a GAAP basis, the State reserves the right to provide its Annual Report based solely on that basis. Any such modification of accounting standards to conform to changes in either GAAP or applicable federal or state auditing statutes, regulations, standards or guidelines shall not constitute an amendment to this Disclosure Agreement within the meaning of Section 10 hereof, provided that such modifications are disclosed in the first Annual Report to be provided subsequent to such modifications.

8. Termination of Reporting Obligation. The State and Issuer's obligations under this Disclosure Agreement shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Bonds or (b) the assumption by a successor Obligated Person(s) of all of the obligations of the Obligated Persons both hereunder and under the Bonds. If the State so terminates its obligations hereunder prior to the final maturity of the Bonds, it shall provide, or cause to be provided, in a timely manner, notice of such termination to the MSRB.

9. Dissemination Agent. The State and the Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such agent, with or without appointing a successor Dissemination Agent.

10. Amendments. Notwithstanding any other provision of this Disclosure Agreement, the State and the Issuer (or the Dissemination Agent, if any) may modify or amend this Disclosure Agreement and any provision of the Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver is related to the provision of Section 3(a), 4 or 5, it may only be made in connection with a change of circumstances that arises from a change in legal requirements, change in law, change in the identity, nature or status of an Obligated Person or the Issuer with respect to the Bonds, or change in the type of business conducted by an Obligated Person;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds after taking into account any amendment or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to such Indenture with the consent of

Holders, and (ii) does not, in the opinion of Bond Counsel, materially impair the interests of Holders.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the State shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (as in the case of a change in accounting principles, on the presentation) of financial information or operating data being presented by the State on behalf of an Obligated Person or the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. A notice of the change in accounting principles shall be sent to the MSRB through EMMA.

11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the State and the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including disclaimers or any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the State and the Issuer choose to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the State and the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

12. Default. In the event of a failure of the State and the Issuer to comply with any provision of this Disclosure Agreement, a paying agent, any Participating Underwriter or any Holder may take such actions as may be necessary and appropriate, including seeking a writ of mandamus or specific performance by court order to cause the State and the Issuer to comply with their obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the State and the Issuer to comply with this Disclosure Agreement shall be an action to compel performance; provided however that nothing herein shall limit any Holder's rights under applicable federal securities law.

13. Severability. In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision or the Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall at the time by construed and enforced as if such illegal or invalid or inoperable portion were not contained therein.

14. Entire Agreement. This Disclosure Agreement contains the entire agreement of the State and the Issuer with respect to the subject matter hereof and supersedes all prior arrangements and understandings with respect thereto, provided however that this Disclosure Agreement shall be interpreted and construed with reference to and in *pari materia* with the Rule.

15. Captions. The captions or headings herein shall be solely for convenience of reference and shall in no way define, limit or describe the scope or intent of any provisions or sections hereof.

16. Beneficiaries. This Disclosure Agreement is being entered into solely for the benefit of the Participating Underwriter and Holders from time to time of the Bonds, and nothing in this Disclosure Agreement expressed or implied is intended to or shall be construed to give to any other person or entity any legal or equitable right, remedy or claim under or in respect of this Disclosure Agreement or any covenants, conditions or provisions contained herein.

17. Governing Law. This Disclosure Agreement shall be deemed to be a contract made under the laws of the State of Delaware, and all provisions hereof shall be governed and construed in accordance with the laws of the State of Delaware, without reference to the choice of law principles thereof.

IN WITNESS WHEREOF, The State of Delaware on behalf of the Agencies has caused this Disclosure Agreement to be duly executed by the Secretary of Finance and the Issuer by its authorized officer.

Dated: August 1, 2011

By: ________________________________
Secretary of Finance
The State of Delaware, on behalf of the Agencies

By: ________________________________
Co-Chair
Sustainable Energy Utility, Inc.

## EXHIBIT A

## FORM OF NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

| | |
|---|---|
| Name of Issuer: | Sustainable Energy Utility, Inc. (the "Issuer") |
| Name of Issue: | Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the "Bonds") |
| Date of Issuance: | August 1, 2011 |

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated August 1, 2011, with respect to the Bonds. The State anticipates that the Annual Report will be filed by _____________.

Dated:_______________

_________________________________________,
Secretary of Finance
State of Delaware

cc: Sustainable Energy Utility, Inc.

## EXHIBIT B

## CONTENTS OF ANNUAL REPORT

1. Audited financial statements for the prior fiscal year in form and content substantially the same as those contained in Appendix C to the Official Statement, or in the event audited financial statements are not available, the State agrees to provide unaudited financial statements and to provide audited financial statements immediately after they become available.

2. A summary of Cash Basis Financial Statements for the prior fiscal year in form and content substantially the same as those contained in Appendix B the Official Statement.

3. An update of the type of information included in the below-listed tables and sections in Appendix A to the Official Statement to the extent not included in Nos. 1 and 2 above:

a. General Obligation Debt Service (p. A-1) – updated for the issuance of general obligation debt through the prior fiscal year.

b. The 5% Rule (p. A-1) – updated for the current fiscal year.

c. The 15% Test and the Cash Balances Test (p. A-1) – updated for the current fiscal year.

d. DEFAC Budgetary General Fund Revenue Projections (p. A-26) – updated for the prior fiscal year.

e. Budgetary General Fund Revenue (p. A-27) – updated for the prior fiscal year.

f. Budgetary General Fund Expenditures (p. A-29) – updated for the prior fiscal year.

g. Sources and Uses of State Funds (p. A-30 to A-31) – updated to compare the prior fiscal year to the fiscal year ten years prior.

h. Budgetary General Fund Disbursements (p. A-46) – updated for the prior fiscal year.

i. Public School Enrollment (p. A-47) – updated for the prior fiscal year.

j. Welfare Expenditures (p. A-49) – updated for the prior fiscal year.

k. Federal Funds (p. A -51) – updated for the prior fiscal year.

4. An update of the type of information included in the text and tables beginning under the heading "General Obligation Debt" through "State Revenue Debt" (p. A-3 to A-7) for the prior fiscal year. The information under the heading "Lease Obligations" shall be updated to cover the five fiscal year period beginning with the prior fiscal year.

5. An update of the type of information included in the text under the heading "Indebtedness of Authorities, University of Delaware and Political Subdivisions – Authorities – Delaware

Transportation Authority" (p. A-8) for the prior fiscal year; and "- Delaware State Housing Authority" (p. A-9) updated for the prior fiscal year.

6. An update of the type of information included in the text and tables under the heading "Fiscal Year Ended June 30, 2010" (p. A-34) for the prior fiscal year.

7. An update of the type of information included in the text and tables under the heading "State Pension Plan" (p. A-52) for the prior fiscal year.

8. An update of the type of information included in the text and tables under the heading "Employee Relations" (p. A-55) for the prior fiscal year.

9. An update of the type of information on the Issuer included in the text under the headings “THE ISSUER - General” and “THE ISSUER – Powers and Responsibilities” (p.4).

10. An update of the type of information included in the text and tables under the heading "THE AGENCIES" and the following subheadings: "- Department of Correction,” “- Department of Services for Children, Youth and Their Families,” “- Delaware State University,” “-Office of Management and Budget” and “- Delaware Technical and Community College” (p.13 to p.17).

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SUSTAINABLE ENERGY UTILITY, INC. • ENERGY EFFICIENCY REVENUE BONDS, SERIES 2011



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