



STATE OF DELAWARE
OFFICE OF THE GOVERNOR

RUTH ANN MINNER
GOVERNOR

January 4, 2006

To the People of Delaware
and the Honorable Members of the
143rd General Assembly

I am pleased to submit the State of Delaware's Comprehensive Annual Financial Report for fiscal year 2005. In addition to providing sound information for policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities. Included in this report are the State's Basic Financial Statements, prepared in conformity with Generally Accepted Accounting Principles (GAAP) and audited by KPMG LLP.

Delaware's economic and fiscal conditions remain sound, as the enclosed report demonstrates. The State's long history of prudent financial management and effective fiscal controls has allowed our state to weather the recent national economic challenges. Because of these strategies, Delaware remains one of only six states that hold the nation's highest bond ratings: Aaa from Moody's Investment Service; AAA from Fitch Ratings and AAA from Standard & Poor's. These ratings place Delaware among the most creditworthy states in the nation.

I am proud to report that we effectively managed the economic and fiscal challenges that confronted us during fiscal year 2005 and will continue to do so in fiscal 2006 and beyond. As we face new challenges, I am confident that Delaware will continue its long tradition of prudent financial management.

Sincerely,

A handwritten signature in black ink that reads "Ruth Ann Minner".

Ruth Ann Minner
Governor

State of Delaware

Comprehensive Annual Financial Report

For the Year Ended June 30, 2005

Ruth Ann Minner

Governor

Richard S. Cordrey

Secretary of Finance

Trisha L. Neely

Director, Division of Accounting

Prepared by the Department of Finance, Division of Accounting

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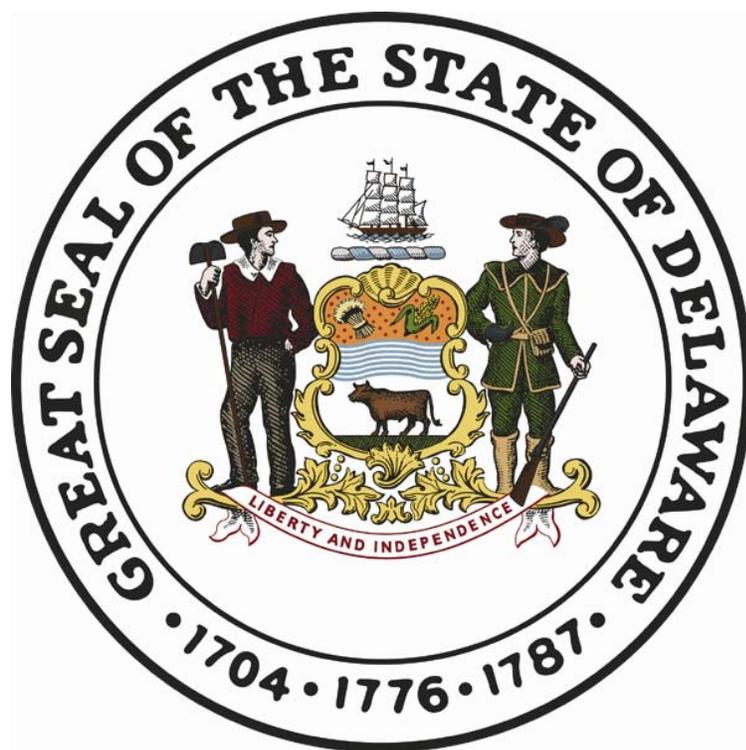
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On the Cover:

Delaware's State Bird: Adopted April 14, 1939, the "Blue Hen" chicken had long been used as a motif in numerous political campaigns and in many publications. During the Revolutionary War, the men of Captain Jonathon Cadwell's company took with them a brood of Blue Hen game chickens. When not fighting the enemy, the officers and men amused themselves by pitting the Blue Hens in cockfights. The fame of the cockfights spread throughout the army. When in battle, the Delaware men fought so valorously that they were compared to these fighting cocks.

State Flower: Passage of the act to adopt the Peach Blossom on May 9, 1895 was prompted by Delaware's reputation as the "Peach State." At that time, Delaware's orchards contained more than 800,000 peach trees.

State Tree: Adopted May 1, 1939, the American Holly is regarded as one of Delaware's most important forest trees. During the 1920s and 1930s, Delaware was the country's leading producer of yuletide holly wreaths.

State Bug: Adopted April 24, 1974, the Lady Bug was chosen by the Legislature after an intensive effort on the insect's behalf by a group of elementary school children.

The state symbols are arranged in diamonds because Delaware is known as the "Diamond State." The state was given this nickname because it has been described as a "jewel" among states due to its strategic location on the Eastern Seaboard. Other Nicknames — "The First State," "Small Wonder" and "Blue Hen State."

*State of Delaware
Comprehensive Annual Financial Report*



Introductory Section



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

**RICHARD S. CORDREY
SECRETARY OF FINANCE**

January 4, 2006

The Honorable Ruth Ann Minner
Members of the Legislature
Citizens of Delaware

It is my pleasure to present the 2005 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2005 has been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as prescribed by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

The Department of Finance is responsible for accuracy of the data, as well as the completeness and fairness of the report's presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner that fairly reports the State's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, members of the General Assembly, the public and the financial community to fully understand the State's financial activities are included.

The CAFR is presented in three major sections: introductory, financial and statistical.

- The introductory section includes this letter, a list of key State officials, the State's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2004 CAFR.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A); Basic Financial Statements (Government-Wide Financial Statements, Fund

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DOVER, DELAWARE 19901
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Financial Statements and notes) and other Required Supplementary Information.

- The statistical section includes selected financial, economic and demographic information, presented on a multi-year basis.

GASB Statement Number 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

PROFILE OF THE GOVERNMENT

Delaware 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 818,000 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.

The State of Delaware 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 Number 14, The Financial Reporting Entity. Further, Statement Number 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 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. Because GAAP fund definitions for accounting purposes differ from those of the budgetary basis General

and Special Funds, the GAAP funds 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 to such fund and is charged with the related disbursements. Examples of specific uses of budgetary Special Funds include State park operations and fees charged by the Public Service Commission and the Division of Professional Regulation. Federal payments, unemployment compensation and local school funds are examples of non-appropriated 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 Budget Office and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Budget Director, 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.

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

In the fall of each calendar year, State organizations submit requests for operating and capital funds for the next fiscal year to the Budget Office, 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 prior to 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. 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.

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. An integral part of the State's budget process, the committee is comprised of 33 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 the State's 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.

Strong Financial Management

Delaware's long tradition of tightly managed finances and a premier credit standing has been recognized by AAA bond ratings. Four principles form the core of this approach: (1) controlling base budget growth; (2) developing sound and responsible tax policy; (3) financial flexibility; and (4) maintaining sizable cash balances in reserve.

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

ECONOMIC CONDITIONS AND OUTLOOK

In recent years, Delaware's economic performance has largely exceeded national trends. Delaware participated fully in the late 1990's economic expansion and followed the nation through the economic downturn that followed. Throughout the recent business cycle, Delaware consistently posted lower unemployment rates than the United States. And, most recently, Delaware's labor markets have recovered, outpacing national growth rates in employment for three consecutive years. The State's job outlook remains healthy with employment growth rates expected to match or exceed national growth rates for the foreseeable future.

According to September 2005 data from the Bureau of Economic Analysis, the State's personal income, the majority of which consists of labor and proprietors income, grew by 6.7% from 2003 to 2004, compared with 6.0% for the Mid-Atlantic region¹ and the nation. Total state personal income in 2004 was \$29.5 billion.

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

Delaware was once regarded primarily as a manufacturing state with high concentrations of employment in chemicals and automobile manufacturing. Over the last two decades, however, strong FIRE (finance, insurance, and real estate) and service sectors have transformed Delaware's economy to the point at which its employment base is more similar to the U.S. economy. In fact, Delaware is now less reliant on manufacturing than the typical state with 8% of its 2004 employment base in manufacturing versus 11% for the nation. Overall, Delaware's largest employment sectors are within various service industries. The largest major sector is Professional and Business Services, accounting for roughly 61,700 jobs in 2004, a gain of nearly 4.8% from the previous year.

In the near term, Delaware faces some uncertainty resulting from Bank of America's recent acquisition of the MBNA Corporation. While the specifics have not yet been disclosed, it is acknowledged that there will likely be cost-cutting measures adopted that could negatively impact job levels in Delaware. The State's diverse economic base and competitive business environment, however, are expected to help mitigate such changes and allow the State to continue its positive economic trends.

Delaware's success in transforming its economy is confirmed by a broad array of economic and "quality of life" measures. In addition to the State's record of strong income and population growth, Delaware rate's of home ownership and education attainment are among the highest in the nation. Its unemployment and poverty rates are among the nation's lowest. Moreover, and perhaps unique to the State, Delaware has achieved these milestones while maintaining what is among the nation's most desirable business climates, especially among its neighbors in the high-cost northeast corridor.

INDEPENDENT AUDIT

The accounting firm of KPMG LLP has audited the accompanying Basic Financial Statements for the State of Delaware as of, and for the year ended, June 30, 2005. The Auditor's report on the financial statements is included in the financial section of this report.

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 1986, as amended. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

CERTIFICATE OF ACHIEVEMENT

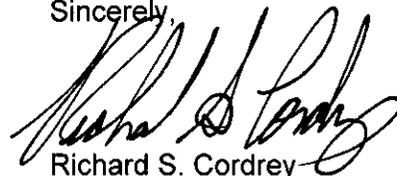
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This is the tenth consecutive year the State has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report was made possible by the support of all State organizations and component units that supplied data. I wish to express my special appreciation to my staff and the Division of Accounting as well as all the other individuals and organizations that assisted in the preparation of this report. This report is also available on the Internet at: http://www.state.de.us/finance/publications/financial_reports.shtml.

Sincerely,



Richard S. Cordrey
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, 2004

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.



Nancy L. Ziehl

President

Jeffrey R. Emery

Executive Director

STATE OF DELAWARE
SELECTED STATE OFFICIALS
As of June 30, 2005

KEY ELECTED OFFICIALS:

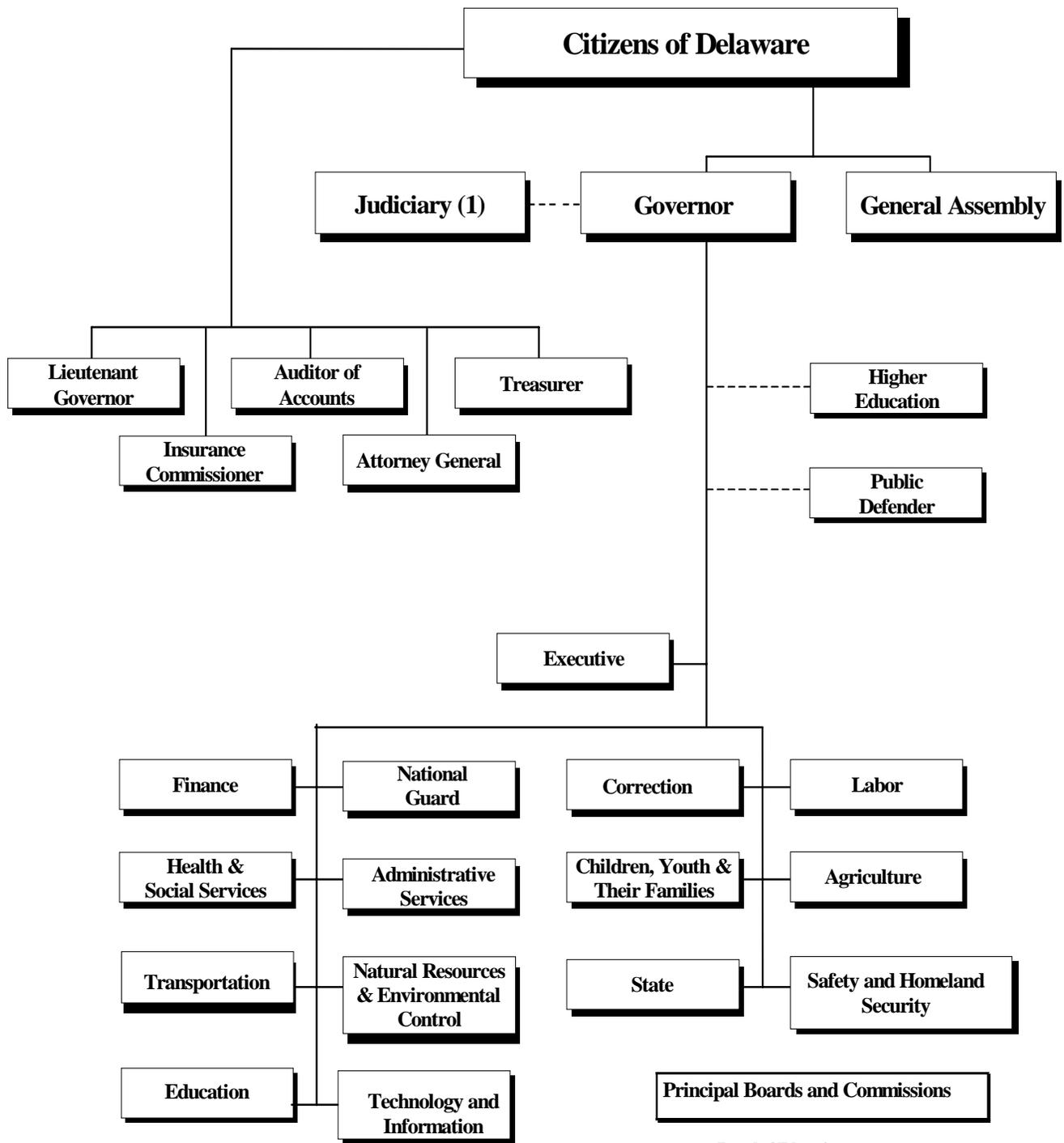
Governor	Ruth Ann Minner
Lt. Governor	John C. Carney, Jr.
Attorney General	M. Jane Brady
State Treasurer	Jack A. Markell
State Auditor	R. Thomas Wagner
Insurance Commissioner	Matthew Denn

KEY LEGISLATIVE OFFICIALS:

President Pro Tem of the Senate	Thurman G. Adams, Jr.
Senate Majority Leader	Harris B. McDowell
Senate Minority Leader	John C. Still
Speaker of the House of Representatives	Terry R. Spence
House of Representatives Majority Leader	Wayne A. Smith
House of Representatives Minority Leader	Robert F. Gilligan

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

Administrative Services	Christina Pochomis
Agriculture	Michael T. Scuse
Budget	Jennifer W. Davis
Corrections	Stanley W. Taylor, Jr.
Delaware Economic and Development Office	Judy McKinney-Cherry
Delaware State Housing Authority	Sandra R. Johnson
Education	Valerie A. Woodruff
Finance	Richard S. Cordrey
Health and Social Services	Vincent P. Meconi
Labor	Thomas B. Sharp
National Guard	(Major General) Francis D. Vavala
Natural Resources and Environmental Control	John A. Hughes
Personnel	Dana Jefferson
Department of Safety and Homeland Security	David B. Mitchell
Services for Children, Youth and Their Families	Carol Ann DeSantis
State	Harriet N. Smith-Windsor
Technology and Information	Thomas M. Jarrett
Transportation	Nathan Hayward



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

- Board of Education
- Elections
- Exceptional Citizens
- Fire Prevention
- Parole