# DELAWARE TRANSIT CORPORATION

Financial Statements
June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**Delaware Transit Corporation**

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# Independent Auditors' Report

The Board of Trustees
Delaware Transportation Authority
Delaware Transit Corporation
Dover, Delaware

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Delaware Transit Corporation (DTC), a blended component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, as of and for the Fiscal Years Ended June 30, 2017 and 2016, and the related notes to financial statements, which collectively comprise DTC's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to DTC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion**.**

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DTC as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated October 20, 2017, on our consideration of DTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DTC's internal control over financial reporting and compliance.

Santora CPA Group

October 20, 2017
Newark, Delaware

This section of the Delaware Transit Corporation's (DTC) annual financial statements presents our discussion and analysis of DTC's financial performance during the Fiscal Years Ended June 30, 2017 and 2016.

## Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates the Delaware Administration for Regional Transit (DART) First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of DART, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 246 fixed route and 298 paratransit vehicles on over 73 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 38 park-and-ride lots and 11 park-and-pool lots with an estimated 5,181 parking spaces. DTC maintains approximately 2,555 bus stops throughout the State of Delaware (the State), with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carried over 9.6 million riders.

## Financial Highlights

- The 2017 operating revenues were approximately $20.5 million and were $0.3 million less than 2016 operating revenues. The decrease is due to a decrease in passenger fares, offset by an increase in auxiliary transportation.

- Total 2017 operating expenses before depreciation were approximately $123.6 million and were $2.9 million higher than 2016 operating expenses. The increase in operating expenses before depreciation is largely due to increased cost related to payroll expenses and other employment costs such as medical expenses, other post-employment benefits, and overtime.

- A $22.4 million investment was made in capital assets during the current year (the funding was $12.3 million in state capital grants and $10.1 million in federal capital grants). This is primarily attributable to the purchase of revenue vehicles, facility construction and renovations, and the purchase and installation of bus stop shelters.

## Overview of the Financial Statements

The financial section of this annual report consists of five parts: (1) management's discussion and analysis, (2) basic financial statements, (3) notes to the financial statements, (4) required supplementary information, and (5) supplementary information.

The financial statements provide both long- and short-term information about DTC's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and supplementary information that further explain and support the information in the financial statements.

DTC's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and changes in net position. All assets and liabilities associated with the operation of DTC are included in the statements of net position.

## Financial Analysis

### *Net Position*

Total assets increased 1.9% to $166.5 million in 2017. Total liabilities increased 5.6% to $149.3 million in 2017 and increased 9.7% to $141.4 million in 2016. Total net position at June 30, 2017 was approximately $21.8 million, a 20.1% decrease from June 30, 2016.

**Condensed Financial Information - Delaware Transit Corporation**
Net Position as of June 30
*(Dollars expressed in millions)*

| | | | | Percentage Change | |
|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2017 - 2016** | **2016 - 2015** |
| Current assets | $ 42.2 | $ 42.4 | $ 40.6 | (0.5) | 4.4 |
| Capital assets, net | 123.7 | 121.0 | 123.4 | 2.2 | (1.9) |
| Other noncurrent assets | 0.6 | - | 0.2 | - | (100.0) |
| Total assets | 166.5 | 163.4 | 164.2 | 1.9 | (0.5) |
| Deferred outflows of resources | 6.1 | 6.3 | 2.2 | (3.2) | 186.4 |
| Current liabilities | 11.7 | 15.5 | 16.0 | (24.5) | (3.1) |
| Noncurrent liabilities | 137.6 | 125.9 | 112.9 | 9.3 | 11.5 |
| Total liabilities | 149.3 | 141.4 | 128.9 | 5.6 | 9.7 |
| Deferred inflows of resources | 1.5 | 1.0 | 0.7 | 50.0 | 42.9 |
| Net position | | | | | |
| Net investment in capital assets | 123.7 | 121.0 | 123.4 | 2.2 | (1.9) |
| Restricted | - | - | 0.2 | - | (100.0) |
| Unrestricted | (101.9) | (93.7) | (86.8) | 8.8 | 7.9 |
| Total net position | $ 21.8 | $ 27.3 | $ 36.8 | (20.1) | (25.8) |

Other noncurrent assets increased $0.6 million due to an increase in investments. The increase in total liabilities was due to (a) an increase in other post-employment benefits payable, which increased $10.9 million to $123.2 million due to DTC not fully funding the annual required contribution, and (b) an increase in net pension liability, which increased $0.8 million as a result of actual returns on investments being less than the expected returns on investments in the DTC and DART pension plans.

### *Changes in Net Position*

The decrease in net position as of June 30, 2017 was approximately $5.5 million, which is a decrease in net position of 20.1% over 2016. Total operating expenses increased 2.9% to approximately $143.3 million in 2017.

**Condensed Financial Information - Delaware Transit Corporation**
Changes in Net Position for the Years Ended June 30
*(Dollars expressed in millions)*

| | | | | Percentage Change | |
|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2017 - 2016** | **2016 - 2015** |
| Operating revenues | | | | | |
| Passenger revenue | $ 17.6 | $ 18.3 | $ 18.5 | (3.8) | (1.1) |
| Other operating revenues | 2.9 | 2.5 | 2.8 | 16.0 | (10.7) |
| Total operating revenues | 20.5 | 20.8 | 21.3 | (1.4) | (2.3) |
| Operating expenses | | | | | |
| Operating expenses | 123.6 | 120.7 | 123.0 | 2.4 | (1.9) |
| Depreciation | 19.7 | 18.6 | 19.1 | 5.9 | (2.6) |
| Total operating expenses | 143.3 | 139.3 | 142.1 | 2.9 | (2.0) |
| Operating loss | (122.8) | (118.5) | (120.8) | 3.6 | (1.9) |
| Nonoperating revenues, net | 3.2 | 5.4 | 6.0 | (40.7) | (10.0) |
| Capital contributions | 10.1 | 8.3 | 13.8 | 21.7 | (39.9) |
| Transfers from DelDOT | 104.0 | 95.3 | 92.9 | 9.1 | 2.6 |
| Changes in net position | (5.5) | (9.5) | (8.1) | (42.1) | 17.3 |
| Total net position - beginning of year, as previously stated | 27.3 | 36.8 | 46.7 | (25.8) | (21.2) |
| Prior period adjustment - implementation of GASB Nos. 68 and 71 | - | - | (1.8) | - | (100.0) |
| Total net position - beginning of year, as restated | 27.3 | 36.8 | 44.9 | (25.8) | (18.0) |
| Total net position - end of year | $ 21.8 | $ 27.3 | $ 36.8 | (20.1) | (25.8) |

The increase in total operating expenses in 2017 is due to an increase in costs related to payroll expenses and other employment costs such as medical expenses, other post-employment benefits, and overtime. The decrease in total operating expenses in 2016 was due to a decrease in fuel and workers' compensation cost.

Capital contributions were up $1.8 million due to DTC's timing related to vehicle replacement and expansion schedules and an increase in facility construction and renovations.

### *Capital Assets*

As of June 30, 2017 and 2016, DTC had $254.9 million and $250.8 million, respectively, invested in capital assets, which included land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's net capital assets at June 30, 2017 and 2016 totaled $123.7 million and $121.0 million, respectively.

Net capital assets increased $2.7 million during the Fiscal Year Ended June 30, 2017 and decreased $2.4 million during the Fiscal Year Ended June 30, 2016. The increase in capital assets amounting to $22.4 million for the Fiscal Year Ended June 30, 2017 is primarily attributed to the purchase of revenue vehicles, facility construction and renovations, and the purchase and installation of bus stop shelters, offset by depreciation expense of $19.7 million. The decrease in capital assets amounting to $16.3 million for the Fiscal Year Ended June 30, 2016 is primarily attributed to the purchase of revenue vehicles, offset by depreciation expense of $18.6 million.

Assets disposed of during 2017 and 2016 totaled $18.3 million and $7.6 million, respectively. Disposals related primarily to the replacement of revenue vehicles and the disposal of communications equipment that was determined to be obsolete or no longer able to support operational needs.

## Economic Factors and Next Year's Budget

DTC submits their operating and capital budgets as part of DelDOT's submission to the General Assembly. DTC's Fiscal Year 2018 operating and capital budgets have been authorized by the General Assembly to meet the demand for core transit services in the State. The Fiscal Year 2018 total operating budget is $118.9 million, which is 0.5% higher than Fiscal Year's 2017 operating budget. The capital budget is $64.9 million, which authorizes funding for purchases of replacement and expansion transit vehicles, facility construction, and rail projects.

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, was effective for DTC beginning in 2008. DTC provides post-retirement healthcare benefits to all employees who retire from DTC after meeting eligibility requirements. GASB No. 45 requires calculation of the unfunded actuarial accrued liability and annual required contributions related to these post-retirement benefits. The pay-as-you-go cash basis costs associated with these benefits was $3.6 million and $1.8 million for the Fiscal Years Ended June 30, 2017 and 2016, respectively. The impact on the financial statements based upon this standard was the recognition of $14.4 million and $12.6 million in benefit expenses for the Fiscal Years Ended June 30, 2017 and 2016, respectively.

## Contacting DTC's Financial Management

This financial report is designed to provide interested parties with a general overview of DTC's finances and to demonstrate DTC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Delaware Transit Corporation, 900 Public Safety Boulevard, Dover, Delaware 19901-4503.

**Delaware Transit Corporation**
Statements of Net Position
June 30, 2017 and 2016

| Assets | 2017 | 2016 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 22,485,491 | $ 35,604,319 |
| Investments - at fair value, unrestricted | 14,439,531 | - |
| Accounts receivable | | |
| Trade | 846,083 | 1,366,353 |
| Federal | 470,528 | 673,784 |
| State | 209,805 | 1,323,315 |
| Inventory | 3,597,850 | 3,199,762 |
| Escrow insurance deposits | 60,078 | 170,743 |
| Prepaid expenses | 84,924 | 4,611 |
| **Total current assets** | 42,194,290 | 42,342,887 |
| **Noncurrent assets** | | |
| Capital assets, nondepreciable | | |
| Land | 1,872,536 | 1,872,536 |
| Capital assets, depreciable | | |
| Buildings and improvements | 72,311,738 | 63,079,173 |
| Fixtures, vehicles, and equipment | 180,706,654 | 185,853,053 |
| Total capital assets | 254,890,928 | 250,804,762 |
| Less: accumulated depreciation | (131,123,236) | (129,777,858) |
| **Total capital assets, net** | 123,767,692 | 121,026,904 |
| Investments - at fair value, unrestricted | 600,200 | - |
| **Total noncurrent assets** | 124,367,892 | 121,026,904 |
| **Total assets** | 166,562,182 | 163,369,791 |
| **Deferred outflows of resources** | | |
| Pension contributions made after the measurement date | 1,949,468 | 2,508,122 |
| Differences between projected and actual earnings on pension plan investments | 4,147,510 | 3,811,702 |
| **Total deferred outflows of resources** | $ 6,096,978 | $ 6,319,824 |

(Continued)

**Delaware Transit Corporation**
Statements of Net Position
June 30, 2017 and 2016

| **Liabilities and Net Position** | **2017** | **2016** |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and other accrued expenses | $ 5,256,961 | $ 8,792,308 |
| Accrued payroll and related expenses | 2,720,131 | 2,714,327 |
| Insurance loss reserve | 2,531,116 | 2,827,546 |
| Compensated absences | 1,137,969 | 1,174,250 |
| **Total current liabilities** | 11,646,177 | 15,508,431 |
| **Noncurrent liabilities** | | |
| Compensated absences - net of current portion | 1,883,700 | 1,894,478 |
| Insurance loss reserve - net of current portion | 6,919,884 | 6,897,454 |
| Other post-employment benefits payable | 123,208,751 | 112,331,937 |
| Net pension liability | 5,621,614 | 4,800,825 |
| **Total noncurrent liabilities** | 137,633,949 | 125,924,694 |
| **Total liabilities** | 149,280,126 | 141,433,125 |
| **Deferred inflows of resources** | | |
| Differences between projected and actual earnings on pension plan investments | 431,566 | 647,349 |
| Differences between expected and actual experience - pension plans | 1,111,462 | 360,061 |
| **Total deferred inflows of resources** | 1,543,028 | 1,007,410 |
| **Net position** | | |
| Investment in capital assets | 123,767,692 | 121,026,904 |
| Unrestricted | (101,931,686) | (93,777,824) |
| **Total net position** | $ 21,836,006 | $ 27,249,080 |

See accompanying notes to financial statements.

**Delaware Transit Corporation**
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating revenues** | | |
| Passenger fares | $ 17,570,463 | $ 18,286,391 |
| Advertising | 519,372 | 493,075 |
| Miscellaneous | 1,317,588 | 1,113,808 |
| Auxiliary transportation | 1,139,031 | 933,563 |
| **Total operating revenues** | 20,546,454 | 20,826,837 |
| **Operating expenses** | | |
| Payroll expense | 86,259,078 | 83,512,215 |
| Professional fees and services | 20,262,048 | 20,734,558 |
| Materials and supplies | 10,496,875 | 9,979,734 |
| Office and miscellaneous | 6,577,649 | 6,474,823 |
| **Total operating expenses before depreciation** | 123,595,650 | 120,701,330 |
| Depreciation | 19,649,911 | 18,617,504 |
| **Total operating expenses** | 143,245,561 | 139,318,834 |
| **Operating loss** | (122,699,107) | (118,491,997) |
| **Nonoperating revenues (expenses)** | | |
| Income from investments | 63,915 | - |
| Bad debt expense | (15,000) | - |
| Federal operating assistance | 7,483,704 | 7,671,890 |
| Pass-through grant revenue | 1,613,760 | 3,048,776 |
| Pass-through grant expense | (5,915,808) | (5,375,069) |
| **Excess of nonoperating revenues over nonoperating expenses** | 3,230,571 | 5,345,597 |
| **Loss before contributions and transfers** | (119,468,536) | (113,146,400) |
| Capital contributions | 10,049,217 | 8,322,063 |
| Transfers from DelDOT | 104,006,245 | 95,281,735 |
| **Change in net position** | (5,413,074) | (9,542,602) |
| **Net position, beginning of year** | 27,249,080 | 36,791,682 |
| **Net position, end of year** | $ 21,836,006 | $ 27,249,080 |

See accompanying notes to financial statements.

**Delaware Transit Corporation**
Statements of Cash Flows
June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from passengers | $ 18,090,733 | $ 17,937,031 |
| Payments to suppliers | (37,676,398) | (36,452,135) |
| Payments to employees | (72,445,013) | (68,694,416) |
| Insurance claims paid | (5,347,175) | (6,648,744) |
| Other receipts | 2,975,991 | 2,540,447 |
| **Net cash used in operating activities** | (94,401,862) | (91,317,817) |
| **Cash flows from noncapital financing activities** | | |
| Federal operating subsidies | 7,483,704 | 7,671,890 |
| Pass-through grant revenue | 1,613,760 | 3,048,776 |
| Pass-through grant payments | (5,915,808) | (5,375,069) |
| Transfers from DelDOT | 91,673,534 | 87,309,555 |
| **Net cash provided by noncapital financing activities** | 94,855,190 | 92,655,152 |
| **Cash flows from capital and related financing activities** | | |
| Proceeds from capital contributions | 10,252,473 | 8,413,592 |
| Transfers from DelDOT - capital | 13,446,224 | 7,406,999 |
| Acquisition of capital assets | (22,390,699) | (16,265,717) |
| **Net cash provided by (used in) capital and related financing activities** | 1,307,998 | (445,126) |
| **Cash flows from investing activities** | | |
| Purchase of investments | (39,019,069) | - |
| Proceeds from sale of investments | 23,979,338 | - |
| Payments (to) from insurance escrow account | 110,665 | (3,387) |
| Interest received | 48,912 | - |
| **Net cash used in investing activities** | (14,880,154) | (3,387) |
| **Net increase (decrease) in cash and cash equivalents** | (13,118,828) | 888,822 |
| **Cash and cash equivalents - beginning of year** | 35,604,319 | 34,715,497 |
| **Cash and cash equivalents - end of year** | $ 22,485,491 | $ 35,604,319 |

(Continued)

**Delaware Transit Corporation**
Statements of Cash Flows
June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Reconciliation of operating loss to net cash used in operating activities** | | |
| Operating loss | $ (122,699,107) | $ (118,491,997) |
| Adjustment to reconcile operating loss to net cash used in operating activities | | |
| Depreciation | 19,649,911 | 18,617,504 |
| Changes in assets and liabilities | | |
| (Increase) decrease in trade accounts receivable | 520,270 | (349,360) |
| Increase in inventory | (398,088) | (103,514) |
| (Increase) decrease in prepaid expenses | (80,313) | 35,363 |
| Pension adjustment | 1,579,253 | 1,268,040 |
| Decrease in accounts payable and other accrued expenses | (3,535,347) | (1,524,841) |
| Decrease in insurance loss reserve | (274,000) | (1,929,000) |
| Decrease in compensated absences | (47,059) | (253,504) |
| Increase in accrued payroll and related expenses | 5,804 | 590,320 |
| Increase in other post-employment benefits payable | 10,876,814 | 10,823,172 |
| **Net cash used in operating activities** | $ (94,401,862) | $ (91,317,817) |

See accompanying notes to financial statements.

## (1) Authorizing Legislation

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, Delaware Transit Corporation (DTC) was created in Fiscal Year 1995 as a subsidiary public corporation of the Delaware Transportation Authority (the Authority). The Authority provides significant operational subsidies to DTC annually. DTC is authorized to operate the public transportation system within the State of Delaware (the State).

The Authority is an independent operating arm of the Delaware Department of Transportation (DelDOT) and a body corporate and politic, constituting a public instrumentality of the State. The Authority was created in 1976 and later reorganized in 1979 by the Enabling Act. The Authority was created to foster the planning and financing of an economical, comprehensive, and integrated system of air, water, vehicular, public, and specialized transportation for the benefit of all people of the State.

## (2) Summary of Significant Accounting Policies

### *(a) Measurement Focus and Basis of Accounting*

DTC (the reporting entity) is a subsidiary public corporation and a blended component unit of the Authority. As a result of the Authority's relationship with the State, DTC's financial statements are included in the comprehensive annual financial report of the State in accordance with accounting principles generally accepted in the United States of America (GAAP).

DTC operates as a special-purpose government engaged solely in business-type activities. DTC's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Operating revenues and expenses generally result from providing services in connection with DTC's ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are recorded as nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is DTC's policy to first apply the expense towards restricted resources and then towards unrestricted resources.

### *(b) Management Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *(c) Cash and Cash Equivalents*

Cash and cash equivalents consist of demand and time deposits and securities with an original maturity of three months or less when purchased.

### *(d) Allowance for Doubtful Accounts*

Accounts receivable are expected to be fully collectible at June 30, 2017 and 2016, and accordingly, a provision for uncollectible accounts has not been established.

### *(e) Inventory*

Inventory consists of equipment parts for revenue and service vehicles and fuel. Inventory is stated at the lower of cost or market value determined using the average cost method.

### *(f) Investments*

Investments are recorded at fair value. Fair value is determined using quoted market prices in an active market, if available. For certain U.S. government securities, U.S. government agency securities, and commercial paper for which an active market does not exist, fair value is determined using a discounted cash flow model. Significant inputs to the discounted cash flow model are the coupon, yield, and expected maturity date of the security.

### *(g) Capital Assets*

Capital assets, which include land, buildings, vehicles, equipment, furniture and fixtures, and bus signs and shelters, are defined by DTC as all assets purchased with State and federal grant funds, as well as any asset with a cost greater than $5,000 purchased with operating funds. Capital assets are recorded at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings, vehicles, equipment, furniture and fixtures, and bus signs and shelters are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Buildings | 5 - 40 years |
| Revenue vehicles | 4 - 25 years |
| Service vehicles and equipment | 3 - 20 years |
| Communications equipment | 10 - 40 years |
| Furniture and fixtures | 3 - 10 years |
| Bus signs and shelters | 10 years |

### *(h) Capital Contributions and Transfers*

Capital contributions arise from State and federal grants generally restricted to capital acquisition. Most capital grants and contributions are in the form of cash, which is then used to purchase capital assets or fund other approved uses.

DTC receives transfers from DelDOT, including subsidy amounts received for operating assistance, pass-through grant revenue, and capital funding for the purchase of capital assets.

***(i) Compensated Absences***

Compensated absences are absences for which DTC employees will be paid, such as vacation, sick leave, and certain other qualifying absences. The number of days compensated for various absence categories is generally based on length of service. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of DTC and its employees is accrued as employees earn the right to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of DTC and its employees are accounted for in the period in which such services are rendered or such events take place.

***(j) Deferred Outflows of Resources and Deferred Inflows of Resources***

Deferred outflows of resources are defined as consumption of net assets by the government that is applicable to future reporting periods. Deferred inflows of resources are defined as acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows increase net position, similar to assets, and deferred inflows decrease net position, similar to liabilities.

The components of deferred outflows of resources and deferred inflows of resources reported in the financial statements were as follows as of June 30,:

| | 2017 | 2016 |
|---|---|---|
| **Deferred outflows of resources** | | |
| Pension contributions made after the measurement date | $ 1,949,468 | $ 2,508,122 |
| Differences between projected and actual earnings on pension plan investments | 4,147,510 | 3,811,702 |
| | $ 6,096,978 | $ 6,319,824 |
| **Deferred inflows of resources** | | |
| Differences between projected and actual earnings on pension plan investments | $ 431,566 | $ 647,349 |
| Differences between expected and actual experience - pension plans | 1,111,462 | 360,061 |
| | $ 1,543,028 | $ 1,007,410 |

***(k) Revenues and Expenses***

Passenger fare revenues are recorded as revenue at the time services are provided to passengers. Revenues from DART cards are recognized at the point of sale.

DTC defines nonoperating revenues as federal operating subsidies, pass-through grant revenue, investment income, capital contributions, and transfers from DelDOT. All other revenues are derived from the normal operations of DTC. Nonoperating expenses are defined as pass-through grant expense. All other expenses are a result of normal operations.

Pass-through revenues and expenses relate to federal, State, and other agency funding received by DTC that is subsequently distributed to local nonprofit, subrecipient organizations, and other agencies to fund transportation-related operations and capital improvement programs.

### *(l) Adoption of Governmental Accounting Standards Board Statements*

In Fiscal Year 2017, DTC adopted two new applicable accounting standards, as follows:

The Governmental Accounting Standards Board (GASB) issued Statement No. 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, in March 2016. GASB No. 82 addresses certain issues raised with respect to GASB No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of GASB No. 82 had no impact on the financial statements of DTC.

GASB issues Statement No. 72, *Fair Value Measurement and Application*, in February 2015. GASB No. 72 improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value guidance, and enhancing disclosures about fair value measurements. This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. The adoption of GASB No. 72 had no impact on the financial statements of DTC.

## (3) Cash and Investments

### *(a) Cash Management Policy and Investment Guidelines*

*Cash Management Policy Board*

DTC follows the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for investment of all money belonging to the State or on deposit from its political subdivisions, other than money deposited in any State Pension Fund or the State Deferred Compensation Program and to determine the terms, conditions, and other matters relating to those investments, including the designation of permissible investments (29 De.C. §2716(a)). By law, all deposits and investments belonging to the State are under the control of the State Treasurer in various pooled investment funds (State Investment Pool) except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board.

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.

*Investment Guidelines and Management*

The Policy requires State funds to be allocated and held in the following categories of accounts:

- Collection and disbursement accounts
- Liquidity accounts
- Reserve accounts
- Endowment accounts
- Operating accounts

DTC's accounts are considered operating accounts. State agencies and other public authorities maintain various operating accounts with the intent of segregating such funds for accounting and reporting purposes. In addition, operating accounts may be created to meet particular purposes and/or to comply with State statutes, bond trust agreements, and/or federal guidelines. The investment objectives of such funds are to ensure safety and maximize return while providing for the liquidity requirements specifically identifiable to the use of such funds.

The Policy specifies the type of investments that 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 following investments are permissible for operating accounts, subject to the percentage limitations of the account:

- U.S. Treasury obligations
- U.S. government agency obligations
- Certificates of deposit and time deposits
- Corporate debt instruments
- Repurchase agreements
- Money market funds

- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities

The State's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available on the Office of the State Treasurer's website at http://treasury.delaware.gov.

### *(b) Custodial Credit Risk*

**Cash and Cash Equivalents**

Cash and cash equivalents, as reported on the Statements of Net Position, are under the control of DTC. DTC maintains all of its cash and cash equivalents with one financial institution. The carrying amounts of DTC's deposits at June 30, 2017 and 2016 were $22,485,491 and $35,604,319, respectively, and the bank balances were $22,570,222 and $35,712,512, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The bank balances of $22,570,222 and $35,712,512 at June 30, 2017 and 2016, respectively, were covered up to $250,000 by the Federal Deposit Insurance Corporation and the remainder by collateral held by DTC's Trustee, in DTC's name.

**Investments**

At June 30, 2017, all of DTC's investments were insured or registered, with securities held by DTC or the counterparty in DTC's name.

DTC measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

| | Assets at Fair Value at June 30, 2017 | | | |
|---|---|---|---|---|
| Description | Level 1 | Level 2 | Level 3 | Total |
| Investments measured at fair value | | | | |
| U.S. government securities | $ 747,950 | $ 1,200,082 | $ - | $ 1,948,032 |
| U.S. government agency securities | 1,198,289 | 5,091,452 | - | 6,289,741 |
| Commercial paper | 2,399,816 | 4,402,142 | - | 6,801,958 |
| | $ 4,346,055 | $10,693,676 | $ - | $ 15,039,731 |

At June 30, 2016, DTC had no investments.

### *(c) Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in DTC accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following table presents a listing of directly held investments and related maturities at June 30, 2017:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1** | **1 - 5** | **6 - 10** |
| U.S. government securities | $ 1,948,032 | $ 1,948,032 | $ - | $ - |
| U.S. government agency securities | 6,289,741 | 6,289,741 | - | - |
| Commercial paper | 6,801,958 | 6,201,758 | 600,200 | - |
| Total investments | $ 15,039,731 | $ 14,439,531 | $ 600,200 | $ - |

DTC held no investments at June 30, 2016.

### *(d) Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. DTC follows the Policy by investing only in authorized securities. DTC's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

The Policy requires that investments in:

- Certificates of deposit and time deposits be with a banking institution with assets of not less than $100 billion that is rated not lower than A1/P-1/F1 short term by at least two rating agencies;
- Money market funds be invested solely in government securities that are rated in the highest rating category by at least one rating agency;
- Asset-backed securities have the highest credit rating from at least two rating agencies; and
- 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-2 | P-2 | F2 |
| Senior long-term debt | A- | A3 | A-* |
| Corporate bonds and debentures | A- | A3 | A- |

*Excluding asset-backed commercial paper that is rated A1 or better

DTC's investments carry ratings that are in compliance with the Policy.

### (e) *Investments in Excess of 5%*

Concentration of credit risk is the risk of loss attributed to the magnitude of DTC'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 that the purchase of securities cannot exceed the following percentage of account limitations, valued at market.

A. U.S. Treasury obligations - no restrictions.

B. U.S. government agency obligations - 50% in total; 20% in any one issuer.

C. Certificates of deposit and time deposits - 50% in total (domestic and non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.

D. Corporate debt - 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.

E. Repurchase agreements - 50% in total; provided that any securities purchased subject to repurchase agreements shall be subject to the respective Percentage Limit for such security type as set forth in the Policy and valued for such purposes at the lesser of fair market value and 102% of the maturity value of the securities pursuant to the repurchase agreement and marked-to-the-market daily as requested by the investment manager.

F. Money market funds - no restrictions.

G. Canadian treasuries - 25% in total.

H. Canadian agency securities - 25% in total; 10% in any one agency.

I. Mortgage-backed and asset-backed securities - 10% in total.

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2017:

| | | |
|---|---|---|
| Federal National Mortgage Association | $ 2,995,191 | 20% |
| Federal Home Loan Bank | $ 2,695,066 | 18% |
| United States Treasury | $ 1,948,032 | 13% |

DTC held no investments at June 30, 2016.

***(f) Investment Commitments***

DTC has made no investment commitments as of June 30, 2017.

***(g) Funding of Unpaid Loss Insurance Reserve Liability***

Included in cash at June 30, 2017 and 2016 was $9,390,922 and $9,554,257, respectively, which will by utilized to fund the remaining loss insurance reserve liability (Note 12), net of escrow insurance deposits.

## (4) Capital Assets

Capital asset activity for the Fiscal Year Ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital asset not being depreciated | | | | |
| Land | $ 1,872,536 | $ - | $ - | $ 1,872,536 |
| Total capital asset not being depreciated | 1,872,536 | - | - | 1,872,536 |
| Capital assets being depreciated | | | | |
| Buildings | 63,079,172 | 9,232,566 | - | 72,311,738 |
| Revenue vehicles | 140,914,018 | 9,023,643 | (6,767,855) | 143,169,806 |
| Service vehicles and equipment | 8,757,599 | 1,068,372 | (119,286) | 9,706,685 |
| Communication equipment | 26,973,693 | 697,929 | (11,409,800) | 16,261,822 |
| Furniture and fixtures | 718,167 | 32,880 | (7,030) | 744,017 |
| Bus signs and shelters | 8,489,577 | 2,335,309 | (562) | 10,824,324 |
| Total capital assets being depreciated | 248,932,226 | 22,390,699 | (18,304,533) | 253,018,392 |
| Less: accumulated depreciation for | | | | |
| Buildings | 24,772,014 | 2,530,415 | - | 27,302,429 |
| Revenue vehicles | 71,658,269 | 13,977,285 | (6,767,855) | 78,867,699 |
| Service vehicles and equipment | 7,683,843 | 600,369 | (119,286) | 8,164,926 |
| Communication equipment | 21,141,251 | 1,764,453 | (11,409,800) | 11,495,904 |
| Furniture and fixtures | 568,886 | 30,619 | (7,030) | 592,475 |
| Bus signs and shelters | 3,953,595 | 746,770 | (562) | 4,699,803 |
| Total accumulated depreciation | 129,777,858 | 19,649,911 | (18,304,533) | 131,123,236 |
| Total capital assets being depreciated, net | 119,154,368 | 2,740,788 | - | 121,895,156 |
| Total capital assets, net | $ 121,026,904 | $ 2,740,788 | $ - | $ 123,767,692 |

Capital asset activity for the Fiscal Year Ended June 30, 2016 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital asset not being depreciated | | | | |
| Land | $ 1,872,536 | $ - | $ - | $ 1,872,536 |
| Total capital asset not being depreciated | 1,872,536 | - | - | 1,872,536 |
| Capital assets being depreciated | | | | |
| Buildings | 57,862,350 | 5,216,822 | - | 63,079,172 |
| Revenue vehicles | 139,651,027 | 8,668,847 | (7,405,856) | 140,914,018 |
| Service vehicles and equipment | 8,634,806 | 322,116 | (199,323) | 8,757,599 |
| Communication equipment | 26,400,237 | 573,456 | - | 26,973,693 |
| Furniture and fixtures | 752,846 | - | (34,679) | 718,167 |
| Bus signs and shelters | 6,984,004 | 1,505,573 | - | 8,489,577 |
| Total capital assets being depreciated | 240,285,270 | 16,286,814 | (7,639,858) | 248,932,226 |
| Less accumulated depreciation for | | | | |
| Buildings | 22,634,839 | 2,137,175 | - | 24,772,014 |
| Revenue vehicles | 65,588,248 | 13,454,779 | (7,384,758) | 71,658,269 |
| Service vehicles and equipment | 7,172,689 | 710,479 | (199,325) | 7,683,843 |
| Communication equipment | 19,410,681 | 1,730,570 | - | 21,141,251 |
| Furniture and fixtures | 569,037 | 34,527 | (34,678) | 568,886 |
| Bus signs and shelters | 3,403,621 | 549,974 | - | 3,953,595 |
| Total accumulated depreciation | 118,779,115 | 18,617,504 | (7,618,761) | 129,777,858 |
| Total capital assets being depreciated, net | 121,506,155 | (2,330,690) | (21,097) | 119,154,368 |
| Total capital assets, net | $ 123,378,691 | $ (2,330,690) | $ (21,097) | $ 121,026,904 |

Depreciation expense for the Fiscal Years Ended June 30, 2017 and 2016 was $19,649,911 and $18,617,504, respectively.

## (5) Long-Term Liabilities

Long-term liability activity for the Fiscal Year Ended June 30, 2017 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 3,068,728 | $ - | $ (47,059) | $ 3,021,669 | $ 1,137,969 |
| Insurance loss reserve | 9,725,000 | 5,073,175 | (5,347,175) | 9,451,000 | 2,531,116 |
| Post-employment benefits | 112,331,937 | 14,449,000 | (3,572,186) | 123,208,751 | - |
| Net pension liability | 4,800,825 | 820,789 | - | 5,621,614 | - |
| Long-term liabilities | $ 129,926,490 | $ 20,342,964 | $ (8,966,420) | $ 141,303,034 | $ 3,669,085 |

Long-term liability activity for the Fiscal Year Ended June 30, 2016 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 3,322,232 | $ - | $ (253,504) | $ 3,068,728 | $ 1,174,250 |
| Insurance loss reserve | 11,654,000 | 4,719,744 | (6,648,744) | 9,725,000 | 2,827,546 |
| Post-employment benefits | 101,508,765 | 12,647,000 | (1,823,828) | 112,331,937 | - |
| Net pension liability | - | 4,800,825 | - | 4,800,825 | - |
| Long-term liabilities | $ 116,484,997 | $ 22,167,569 | $ (8,726,076) | $ 129,926,490 | $ 4,001,796 |

## (6) Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement (CBA) covers the period from September 1, 2013 through August 31, 2016. As of the date of this report, a new CBA had not been signed and both parties continue to operate under the expired contract terms.

Paratransit Specialists statewide and South District Fixed Route Operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate CBA. The term of the current CBA covers the period from September 1, 2013 through August 31, 2016. As of the date of this report, a new CBA had not been signed and both parties continue to operate under the expired contract terms.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employees International Union AFL-CIO, Local 32. The term of the current CBA covers the period from January 1, 2013 through December 31, 2016. As of the date of this report, a new CBA had not been signed and both parties continue to operate under the expired contract terms.

Service and automotive technicians and automotive parts/inventory control specialists are represented by the International Brotherhood of Electrical Workers, Local 2270. The term of the current CBA covers the period from July 1, 2015 through June 30, 2019.

## (7) Defined Benefit Pension Plans

### *(a) Plan Descriptions*

DTC administers the Delaware Transit Corporation Pension Plan (DTC Plan) and the Delaware Administration for Regional Transit (DART) Contributory Pension Plan (DART Plan).

The DTC Plan is a single-employer, defined benefit, contributory plan covering noncollectively bargained employees of DTC, DART, and Delaware Administration for Specialized Transit.

The DART Plan is a single-employer, defined benefit, contributory plan covering members of Local 32, Office and Professional Employees International Union AFL-CIO, and Local 842, Amalgamated Transit Union AFL-CIO and its collective bargaining units: the North District Fixed Route and Maintenance Employees and the Paratransit and Greater Dover Area Fixed Route Drivers, who are employed by DTC.

Each plan provides retirement, disability, and death benefits to plan members and beneficiaries.

Both plans issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing DTC at 900 Public Safety Boulevard, Dover, Delaware 19901-4503.

The following employees were covered by the DTC Plan at June 30,:

| | 2016 | 2015 |
|---|---|---|
| Active members | 296 | 272 |
| Inactive members or beneficiaries currently receiving benefits | 64 | 58 |
| Terminated, vested members | 67 | 63 |
| Totals | 427 | 393 |

The following employees were covered by the DART Plan at December 31,:

| | 2016 | 2015 |
|---|---|---|
| Active members | 647 | 638 |
| Inactive members or beneficiaries currently receiving benefits | 174 | 163 |
| Terminated, vested members | 76 | 82 |
| Totals | 897 | 883 |

***(b) Benefits***

The DTC Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible for early retirement at age 55. All employees may retire at any age after 25 years of credited service or upon reaching the age of 62. If an employee terminates their employment after at least five years of credited service, but before normal retirement age, they may defer pension benefits until reaching retirement age. Benefits fully vest after five years of credited service.

Death benefits for a participant who dies while employed after completing five years of credited service is equal to 75% of the service pension to which the participant would have been eligible at age 65.

The DART Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible to receive pension benefits at age 65. All employees may retire at any age after 25 years of credited service or upon reaching the age of 65 with a minimum of five years of continuous service. If an employee terminates their employment after at least five years of continuous service, but before normal retirement age, they may defer pension benefits until reaching retirement age. As of December 31, 2016 and 2015, the monthly benefits were $68 and $65 per year of service, respectively. Effective January 1, 2017, the multiplier for employees who retire after December 31, 2016 was increased to a monthly benefit per year of service of $68.50. Upon the death of a retiree or active participant, a lump-sum payment will be made comprised of the aggregate of the participant's contributions that exceed the aggregate of the payments that have been made to the participant.

***(c) Funding Policy***

For the DTC Plan, DTC retains the authority to establish, evaluate, and amend the obligations to contribute to the Plan. DTC's annual contribution determined by the actuary is funded monthly until the required contribution is met. Employees hired after June 30, 2012 are required to contribute 3% of eligible annual compensation in excess of $6,000.

For the DART Plan, the Pension Committee retains the authority to establish, evaluate, and amend the obligations to contribute to the Plan of both the Plan members, as collectively bargained, and DTC. Plan members are required to contribute 5% of their hourly wages for each hour worked to a maximum of 2,080 hours per year. DTC contributes 5% of the regular hourly wages to the Plan.

The contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2017 were $1,103,640 and $1,079,529, respectively. The contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2016 were $1,176,180 and $1,253,265, respectively.

***(d) Net Pension Liability***

The DTC Plan's net pension liability for the Fiscal Years Ended June 30, 2017 and 2016 was determined by an actuarial valuation as of July 1, 2016 and 2015. Update procedures were used to roll forward the valuation results. There have been no changes between the measurement date of the net pension liability and DTC's report date that are expected to have a significant effect on the net pension liability.

The total pension liability used to calculate the net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurements:

| | |
|---|---|
| Investment rate of return | 7.5%, net of plan investment expense, including inflation |
| Salary increases | 2.5%, including inflation |
| Inflation | 2.0% |
| Mortality | RP-2000 Combined Healthy tables with generational projection by Scale AA |

The long-term expected rate of return on the DTC Plan's investments was determined using a building-block method, where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. These return expectations are weighted based on the following asset/target amounts:

| Asset Class | Long-Term Expected Real Rate of Return | Asset Allocation Percentage |
|---|---|---|
| Domestic equity | 5.20% | 42.00% |
| International equity | 5.20 | 16.00 |
| Emerging equity | 5.20 | 7.00 |
| Core fixed income | 3.00 | 25.00 |
| Intermediate IG Corp | 3.80 | 2.50 |
| Bank loans | 2.70 | 2.50 |
| High yield | 4.30 | 2.50 |
| Emerging debt | 4.80 | 2.50 |

The DART Plan's net pension liability for the calendar years ended December 31, 2016 and 2015 was determined by actuarial experience studies as of January 1, 2017 and 2016. There have been no changes between the measurement date of the net pension liability and the report date that are expected to have a significant effect on the net pension liability. The total pension liability used to calculate the net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurements:

| | |
|---|---|
| Investment rate of return | 7.0% |
| Salary increases | 4.0% |
| Inflation | 2.0% |
| Mortality | RP-2000 Blue Collar table without any future mortality improvements |

The long-term expected rate of return on the DART Plan's investments was determined using a building-block method, where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. These return expectations are weighted based on the following asset/target amounts:

| Asset Class | Long-Term Expected Real Rate of Return | Asset Allocation Percentage |
|---|---|---|
| Domestic equity | 6.48% | 39.00% |
| International equity | 6.65 | 15.00 |
| Emerging equity | 7.20 | 6.00 |
| Core fixed income | 3.13 | 28.00 |
| Intermediate IG Corp | 4.00 | 2.75 |
| Bank loans | 2.89 | 2.75 |
| High yield | 4.75 | 2.75 |
| Emerging debt | 5.25 | 2.75 |
| Cash equivalents | 0.75 | 1.00 |

***(e) Discount Rate***

The discount rate used to measure the total pension liability was 7.5% for the DTC Plan and 7.0% for the DART Plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from DTC will be made at rates determined by the Pension Committee, actuarially calculated. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *(f) Changes in the Net Pension Liability*

Changes in DTC's net pension liability for the Fiscal Year Ended June 30, 2017 were as follows:

| | DTC Plan | | | DART Plan | | | Totals | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| **Balances at 7/1/15 (DTC Plan) and 1/1/16 (DART Plan)** | $ 23,341,263 | $ 21,949,286 | $ 1,391,977 | $ 44,982,744 | $ 41,573,896 | $ 3,408,848 | $ 68,324,007 | $ 63,523,182 | $ 4,800,825 |
| **Changes for the year** | | | | | | | | | |
| Service cost | 872,981 | - | 872,981 | 2,048,021 | - | 2,048,021 | 2,921,002 | - | 2,921,002 |
| Interest | 1,724,155 | - | 1,724,155 | 3,209,211 | - | 3,209,211 | 4,933,366 | - | 4,933,366 |
| Changes of benefit terms | - | - | - | 196,533 | - | 196,533 | 196,533 | - | 196,533 |
| Differences between expected and actual experience | (693,032) | - | (693,032) | (217,407) | - | (217,407) | (910,439) | - | (910,439) |
| Contributions - employer | - | 1,103,640 | (1,103,640) | - | 1,079,529 | (1,079,529) | - | 2,183,169 | (2,183,169) |
| Contributions - member | - | 81,088 | (81,088) | - | 1,359,960 | (1,359,960) | - | 1,441,048 | (1,441,048) |
| Net investment income | - | 404,749 | (404,749) | - | 2,550,243 | (2,550,243) | - | 2,954,992 | (2,954,992) |
| Benefit payments, including refunds of member contributions | (705,056) | (705,056) | - | (2,410,564) | (2,410,564) | - | (3,115,620) | (3,115,620) | - |
| Administrative expenses | - | (165,664) | 165,664 | - | (93,872) | 93,872 | - | (259,536) | 259,536 |
| **Net changes** | 1,199,048 | 718,757 | 480,291 | 2,825,794 | 2,485,296 | 340,498 | 4,024,842 | 3,204,053 | 820,789 |
| **Balances at 6/30/16 (DTC Plan) and 12/31/16 (DART Plan)** | $ 24,540,311 | $ 22,668,043 | $ 1,872,268 | $ 47,808,538 | $ 44,059,192 | $ 3,749,346 | $ 72,348,849 | $ 66,727,235 | $ 5,621,614 |

Changes in DTC's net pension liability for the Fiscal Year Ended June 30, 2016 were as follows:

| | DTC Plan | | | DART Plan | | | Totals | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| **Balances at 7/1/14 (DTC Plan) and 1/1/15 (DART Plan)** | $ 21,812,465 | $ 20,884,633 | $ 927,832 | $ 40,854,772 | $ 42,036,047 | $ (1,181,275) | $ 62,667,237 | $ 62,920,680 | $ (253,443) |
| **Changes for the year** | | | | | | | | | |
| Service cost | 842,642 | - | 842,642 | 1,976,155 | - | 1,976,155 | 2,818,797 | - | 2,818,797 |
| Interest | 1,612,332 | - | 1,612,332 | 2,924,733 | - | 2,924,733 | 4,537,065 | - | 4,537,065 |
| Changes of benefit terms | - | - | - | 1,472,788 | - | 1,472,788 | 1,472,788 | - | 1,472,788 |
| Differences between expected and actual experience | (296,768) | - | (296,768) | (111,543) | - | (111,543) | (408,311) | - | (408,311) |
| Contributions - employer | - | 1,176,180 | (1,176,180) | - | 1,253,265 | (1,253,265) | - | 2,429,445 | (2,429,445) |
| Contributions - member | - | 57,524 | (57,524) | - | 1,387,616 | (1,387,616) | - | 1,445,140 | (1,445,140) |
| Net investment income | - | 554,571 | (554,571) | - | (869,379) | 869,379 | - | (314,808) | 314,808 |
| Benefit payments, including refunds of member contributions | (629,408) | (629,408) | - | (2,134,161) | (2,134,161) | - | (2,763,569) | (2,763,569) | - |
| Administrative expenses | - | (94,214) | 94,214 | - | (99,492) | 99,492 | - | (193,706) | 193,706 |
| **Net changes** | 1,528,798 | 1,064,653 | 464,145 | 4,127,972 | (462,151) | 4,590,123 | 5,656,770 | 602,502 | 5,054,268 |
| **Balances at 6/30/15 (DTC Plan) and 12/31/15 (DART Plan)** | $ 23,341,263 | $ 21,949,286 | $ 1,391,977 | $ 44,982,744 | $ 41,573,896 | $ 3,408,848 | $ 68,324,007 | $ 63,523,182 | $ 4,800,825 |

### *(g) Sensitivity of Net Pension Liability to Changes in the Discount Rate*

The sensitivity of the net pension liability to changes in the DTC Plan's discount rate as of June 30, 2016, and the DART Plan's discount rate as of December 31, 2016 were as follows:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| DTC Plan (7.5%) | $ 4,839,404 | $ 1,872,268 | $ (633,117) |
| DART Plan (7.0%) | $ 8,775,054 | $ 3,749,346 | $ (584,059) |

The sensitivity of the net pension liability to changes in the DTC Plan's discount rate as of June 30, 2015, and the DART Plan's discount rate as of December 31, 2015 were as follows:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| DTC Plan (7.5%) | $ 4,238,064 | $ 1,391,977 | $ (1,011,652) |
| DART Plan (7.0%) | $ 8,214,225 | $ 3,408,848 | $ (726,084) |

### *(h) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources*

The components of pension expense for the DTC Plan were as follows for the Fiscal Years Ended June 30,:

| | 2017 | 2016 |
|---|---|---|
| Service cost | $ 872,981 | $ 842,642 |
| Interest | 1,724,155 | 1,612,332 |
| Member contributions | (81,088) | (57,524) |
| Difference between actual and expected experience | (123,725) | (37,096) |
| Administrative expenses | 165,664 | 94,214 |
| Projected earnings on plan investments | (1,657,972) | (1,585,475) |
| Amortization of investment return differences | 241,043 | (9,602) |
| Pension expense | $ 1,141,058 | $ 859,491 |

The components of pension expense for the DART Plan were as follows for the Fiscal Years Ended June 30,:

| | 2017 | 2016 |
|---|---|---|
| Service cost | $ 2,048,021 | $ 1,976,155 |
| Interest | 3,209,211 | 2,924,733 |
| Member contributions | (1,359,960) | (1,387,616) |
| Benefit changes | 196,533 | 1,472,788 |
| Difference between actual and expected experience | (35,310) | (11,154) |
| Administrative expenses | 93,872 | 99,492 |
| Projected earnings on plan investments | (2,907,938) | (2,864,345) |
| Amortization of investment return differences | 818,284 | 746,745 |
| Pension expense | $ 2,062,713 | $ 2,956,798 |

*Contributions Made Subsequent to the Measurement Period* - Contributions made subsequent to the measurement period (Fiscal Year June 30, 2017 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net pension liability in Fiscal Year 2018.

*Expected and Actual Experience Differences* - The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

*Change in Assumptions* - The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive Plan members. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

*Differences Between Projected and Actual Investment Earnings on Pension Plan Investments* - The difference between the actual earnings on Plan investments compared to the DTC Plan's expected rate of return of 7.5% and DART Plan's expected rate of return of 7.0% is amortized over a closed period of five years. The first year of amortization is recognized as pension expense, with the remaining four years recognized as either a deferred outflow or deferred inflow of resources.

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources related to the DTC Plan and DART Plan for the Fiscal Year Ended June 30, 2017:

| | Measurement Period | Amortization Period | Balance at June 30, 2016 | Additions | Deductions | Balance at June 30, 2017 |
|---|---|---|---|---|---|---|
| **Deferred Outflows of Resources:** | | | | | | |
| Differences between expected and actual earnings on pension plan investments | 2015 | 5 years | $ 3,811,702 | $ - | $ (952,926) | $ 2,858,776 |
| | 2016 | 5 years | - | 1,610,918 | (322,184) | 1,288,734 |
| | | | 3,811,702 | 1,610,918 | (1,275,110) | 4,147,510 |
| Contributions made after the measurement date | | | 2,508,122 | 1,949,468 | (2,508,122) | 1,949,468 |
| Totals | | | $ 6,319,824 | $ 3,560,386 | $ (3,783,232) | $ 6,096,978 |
| **Deferred Inflows of Resources:** | | | | | | |
| Differences between expected and actual earnings on pension plan investments | 2014 | 5 years | $ 521,937 | $ - | $ (184,430) | $ 337,507 |
| | 2015 | 5 years | 125,412 | - | (31,353) | 94,059 |
| | | | 647,349 | - | (215,783) | 431,566 |
| Differences between expected and actual experience - pension plans | 2015 | 8-10 years | 360,061 | - | (48,250) | 311,811 |
| | 2016 | 8-9 years | - | 910,439 | (110,788) | 799,651 |
| | | | 360,061 | 910,439 | (159,038) | 1,111,462 |
| Totals | | | $ 1,007,410 | $ 910,439 | $ (374,821) | $ 1,543,028 |

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources related to the DTC Plan and DART Plan for the Fiscal Year Ended June 30, 2016:

| | Measurement Period | Amortization Period | Balance at June 30, 2015 | Additions | Deductions | Balance at June 30, 2016 |
|---|---|---|---|---|---|---|
| **Deferred Outflows of Resources:** | | | | | | |
| Differences between expected and actual earnings on pension plan investments | 2015 | 5 years | $ - | $ 4,856,818 | $ (1,045,116) | $ 3,811,702 |
| Contributions made after the measurement date | | | 2,232,549 | 2,508,122 | (2,232,549) | 2,508,122 |
| Totals | | | $ 2,232,549 | $ 7,364,940 | $ (3,277,665) | $ 6,319,824 |
| **Deferred Inflows of Resources:** | | | | | | |
| Differences between expected and actual earnings on pension plan investments | 2014 | 5 years | $ 706,367 | $ - | $ (184,430) | $ 521,937 |
| | 2015 | 5 years | - | 156,765 | (31,353) | 125,412 |
| | | | 706,367 | 156,765 | (215,783) | 647,349 |
| Differences between expected and actual experience - pension plans | 2015 | 8-10 years | - | 408,311 | (48,250) | 360,061 |
| Totals | | | $ 706,367 | $ 565,076 | $ (264,033) | $ 1,007,410 |

The net collective deferred outflows (inflows) will be recognized in pension expense during the Fiscal Years Ending June 30,:

| | |
|---|---|
| 2018 | $ 900,292 |
| 2019 | $ 900,292 |
| 2020 | $ 1,116,073 |
| 2021 | $ 163,147 |
| 2022 | $ (159,035) |
| Thereafter | $ (316,287) |

### *(i) Payable to the Plans*

At June 30, 2017 and 2016, DTC reported payables of $11,204 and $28,548, respectively, for the outstanding amount of contributions due to the DTC Plan.

At June 30, 2017 and 2016, DTC reported payables of $247,179 and $859,532, respectively, for the outstanding amount of contributions due to the DART Plan.

## (8) Other Post-Employment Benefits (OPEB)

### *(a) Plan Description*

In June 2010, the Delaware Transit Corporation OPEB Fund Trust (the OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The OPEB Trust is administered by DTC. Policy for and management of the OPEB Trust benefits provided to retirees are the responsibility of DTC. 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 insurance coverage to retired employees and their eligible dependents. DTC has elected to assume the OPEB Trust liability on behalf of all of its employees.

Membership of the plan consisted of the following at June 30,:

| | 2016 | 2015 |
|---|---|---|
| Retirees and beneficiaries receiving benefits | 230 | 230 |
| Terminated plan members entitled to, but not yet receiving, benefits | 62 | 67 |
| Active eligible plan members | 876 | 851 |
| Total | 1,168 | 1,148 |

Substantially all DTC employees become eligible for post-retirement benefits if they reach retirement age while working for DTC. The plan provisions are as follows:

**Eligibility**

*Contract Employees:*

For employees hired before January 1, 2016 - Age 65 with five years of service or after attaining 25 years of service.

For employees hired after January 1, 2016 - Age 65 with ten years of service or after attaining 25 years of service.

*Non-Contract Employees:*

For employees hired before January 1, 2016 - Age 55 with ten years of service or age 62 with five years of service.

For employees hired after January 1, 2016 - Age 55 with ten years of service.

**Benefits**

During the Fiscal Years Ended June 30, 2017 and 2016, DTC provided health insurance options through several providers.

**Spouse and Survivor Coverage**

Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

**Employee Contributions**

No contributions are required by the employees.

***(b) Funding Policy and Employer Contributions***

DTC funds the OPEB Trust on a pay-as-you-go basis with additional funding provided on an ad-hoc basis. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under DTC's management, who acts as the Trustee of and is responsible for the financial management of the OPEB Trust. The cash basis costs associated with these benefits were $3,572,186 and $1,823,828 for the Fiscal Years Ended June 30, 2017 and 2016, respectively.

### *(c) Employer Subsidy*

*Medical, Dental, and Vision for Employees Hired Before January 1, 2016:*

DTC subsidizes 90% of medical premiums based on 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 non-contract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium.

*Medical, Dental, and Vision for Employees Hired After January 1, 2016:*

DTC subsidizes 50% of medical premiums based on published rates after 10 years of service, 75% after 15 years of service, and 100% (minus equivalent of employee premium) after 20 years of service. DTC subsidizes 100% of the dental and vision coverage for all employees after 10 years of service.

*Life Insurance*

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. DTC must pay $0.265 per month per $1,000 of coverage for each employee.

### *(d) Annual OPEB Cost and Net OPEB Obligation*

DTC'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 the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Amounts "required" but not actually contributed to pay for these benefits are accumulated as part of the net OPEB obligation. The following table shows the components of DTC's annual OPEB cost, the amount actually contributed to the plan, and DTC's net OPEB obligation for the Fiscal Year Ended June 30, 2017:

| | |
|---|---|
| **Net OPEB obligation as of June 30, 2016** | $ 112,331,937 |
| Annual required contribution | 16,073,000 |
| Interest on net OPEB obligation | 4,493,000 |
| Adjustment to annual required contribution | (6,117,000) |
| **Annual OPEB cost** | 126,780,937 |
| Employer contributions | (3,572,186) |
| **Net OPEB obligation as of June 30, 2017** | $ 123,208,751 |

The following table shows the components of DTC's annual OPEB cost, the amount actually contributed to the Plan, and DTC's net OPEB obligation for the Fiscal Year Ended June 30, 2015:

| | |
|---|---|
| **Net OPEB obligation as of June 30, 2015** | $ 101,508,765 |
| Annual required contribution | 13,865,000 |
| Interest on net OPEB obligation | 3,988,000 |
| Adjustment to annual required contribution | (5,206,000) |
| **Annual OPEB cost** | 114,155,765 |
| Employer contributions | (1,823,828) |
| **Net OPEB obligation as of June 30, 2016** | $ 112,331,937 |

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 06/30/2017 | $ 14,449,000 | 24.72 % | $ 123,208,751 |
| 06/30/2016 | 12,647,000 | 14.42 | 112,331,937 |
| 06/30/2015 | 11,950,000 | 11.71 | 101,508,765 |

### *(e) Funded Status and Funding Progress*

As of July 1, 2016, the most recent actuarial valuation date, the plan was 2.0% funded. The actuarial accrued liability was $125,906,000, and the actuarial value of estimated assets was $2,506,000, resulting in a UAAL of $123,400,000. The covered payroll (annual payroll of active employees covered by the plan) was $47,221,231, and the ratio of the UAAL to the covered payroll was 261.3%.

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 ARC 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 financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### *(f) 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 July 1, 2016 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a 4.0% investment rate of return, 3.0% payroll growth rate, a 2.4% inflation rate, and a healthcare cost trend rate based on the Society of Actuaries Long-Term Medical Trend Model adjusted for the projected impact of the cadillac tax for pre-age 65 retirees. Sample trends are as follows:

| | |
|---|---|
| 2017 | 5.4% |
| 2022 | 5.0 |
| 2027 | 5.0 |
| 2052 | 4.8 |

The unfunded liability is being amortized as a level percentage of payroll over a 30-year closed amortization period.

## (9) Operating Leases

DTC has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require DTC to pay for maintenance and liability insurance costs. Rental expenses were $34,212 and $32,070 for the Fiscal Years Ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows as of the Fiscal Year Ended June 30, 2017:

| | |
|---|---|
| 2018 | $ 1,800 |
| 2019 | 1,800 |
| 2020 | 1,800 |
| | $ 5,400 |

DTC had an operating lease agreement for transit vehicle tires, which expired on August 31, 2014. The lease agreement can be automatically renewed for two additional one-year periods, which extends the lease through August 31, 2016. On September 2, 2016, DTC entered into a new lease contract for a three-year period with option to extend the contract up to two times for a period of up to one year. Similar to the prior lease, the lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the Fiscal Years Ended June 30, 2017 and 2016, DTC incurred expenses related to this lease of $636,726 and $457,901, respectively.

## (10) Economic Dependency

DTC's revenue from operating subsidies from State entities was approximately 72% and 71% of total revenue for the Fiscal Years Ended June 30, 2017 and 2016, respectively.

## (11) Commitments and Contingencies

***Litigation***

DTC is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of DTC.

## (12) Risk Management

***(a) Workers' Compensation Insurance***

DTC maintains coverage for workers' compensation benefits. DTC manages the coverage through both the retention of risk and the purchase of commercial insurance. The payment of workers' compensation claims is processed through a third-party administrator.

For years prior to 2003, DTC established workers' compensation loss contingency reserves based upon insurance carriers' actuarial reviews. Benefit claims in an amount of $100,000 or less per person, per coverage year are paid by DTC from the workers' compensation loss contingency reserve. Once any claim exceeds $100,000 or total claims for a given policy period exceed the maximum loss amount, the insurance policy covers the excess.

For Fiscal Year 2003, DTC changed its coverage to a first dollar program. Also, all claims were subject to a $5,000 deductible for the medical portion of a claim. All other expenses related to a claim were covered by the insurance carrier.

Subsequent to Fiscal Year 2003, DTC changed its coverage and was insured through Fiscal Year 2011 by the State. For Fiscal Years 2012 through 2014, DTC was insured through Liberty Mutual. In Fiscal Year 2015, DTC returned to being covered by the State. The premium for Fiscal Years 2017 and 2016 was calculated as $2.00 per $100 on gross wages and $4.00 per $100 on gross wages, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

***(b) Auto Insurance***

DTC maintains auto insurance coverage through both the retention of risk and the purchase of commercial insurance. Auto loss reserves that are based upon actuarial reviews were established by DTC.

For fiscal years prior to 2003, DTC established auto loss reserves based upon insurance carriers' actuarial reviews. Individual claims in an amount of $100,000 or less per incident, per coverage year were paid from the auto loss reserve funds. Once a specific claim exceeds $100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

For 2003 and subsequent years, DTC changed its auto insurance coverage whereby they established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for coverage amounts in excess of the self-insured retention thresholds.

DTC established initial loss reserve insurance liabilities for each of the years based upon actuarially determined valuations assuming DTC's maximum liability exposure to be $1,000,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329). DTC had several cases that were settled in excess of the sovereign immunity cap.

For individual claims in excess of the sovereign immunity cap, DTC established a maximum amount of loss based upon their self-insured retention program, as well as purchasing commercial insurance coverage in the amounts identified in the table below:

| Fiscal Year | Initial Loss Reserve Insurance Liability Established | Maximum Amount of Loss Under Self-Insured Retention Program (Per Occurrence) | Excess Commercial Coverage (Aggregate) |
|---|---|---|---|
| 2017 | $ 5,040,000 | $ 1,000,000 | *** |
| 2016 | 4,679,000 | 1,000,000 | *** |
| 2015 | 5,078,000 | 1,000,000 | *** |
| 2014 | 4,510,000 | 1,000,000 | *** |
| 2013 | 4,304,004 | 1,000,000 | *** |
| 2012 | 3,828,996 | 1,000,000 | *** |
| 2011 | 3,372,000 | 1,000,000 | *** |
| 2010 | 3,467,000 | 1,000,000 | *** |
| 2009 | 3,129,000 | 900,000 | ** |
| 2008 | 3,106,000 | 900,000 | ** |
| 2007 (01/15/07 - 06/30/07) | * | 900,000 | ** |
| 2007 (07/01/06 - 01/14/07) | 2,607,350 | 2,300,000 | $ 5,000,000 |
| 2006 | 2,858,258 | 2,300,000 | 5,000,000 |
| 2005 | 2,763,367 | 2,300,000 | 5,000,000 |
| 2004 | 2,666,763 | 1,300,000 | 6,000,000 |
| 2003 | 2,561,000 | 1,300,000 | 10,000,000 |

* Initial loss reserve established July 1, 2006 in the amount of $2,607,350 for the entire fiscal year.

** For these loss years, DTC is self-insured for the first $900,000, and the next $100,000 is commercial coverage. DTC has no additional coverage beyond this point.

*** For these years, DTC is self-insured with no commercial coverage.

The components of the remaining insurance loss reserve on DTC's statement of net position were as follows at June 30,:

| Auto Loss Reserve Remaining for Fiscal Year | 2017 | 2016 |
|---|---|---|
| 2017 | $ 3,592,000 | $ - |
| 2016 | 2,857,000 | 3,414,000 |
| 2015 | 1,828,000 | 3,019,000 |
| 2014 | 615,000 | 2,196,000 |
| 2013 | 282,000 | 966,000 |
| 2012 | 77,000 | - |
| 2011 | 196,000 | 126,000 |
| 2000 | 4,000 | 4,000 |
| | $ 9,451,000 | $ 9,725,000 |

Changes in the balance of total claim liabilities during Fiscal Years 2017 and 2016 were as follows:

| Fiscal Year | Beginning Balance - July 1 | Current Year Estimated Claims and Changes in Estimates | Actual Claim Payments | Ending Balance - June 30 |
|---|---|---|---|---|
| 2017 | $ 9,725,000 | $ 5,073,175 | $ (5,347,175) | $ 9,451,000 |
| 2016 | $ 11,654,000 | $ 4,719,744 | $ (6,648,744) | $ 9,725,000 |

## (13) Transfers

The following amounts were transferred from DelDOT and related entities to DTC for the Fiscal Years Ended June 30,:

| | 2017 | 2016 |
|---|---|---|
| Amounts transferred as operating assistance | $ 87,827,600 | $ 85,420,600 |
| Amounts transferred as pass-through grant revenues | 3,845,934 | 1,888,955 |
| Amounts transferred as capital funding for purchase of capital assets | 12,332,711 | 7,972,180 |
| **Total transfers from DelDOT** | $104,006,245 | $ 95,281,735 |

## (14) Deficit on Unrestricted Net Position

DTC has a deficit on unrestricted net position of $101,931,686 and $93,777,824 as of June 30, 2017 and 2016, respectively. The deficit was caused by the implementation of GASB No. 45, which required DTC to calculate and record the annual unfunded required contribution related to post-employment benefits provided to retirees, which does not negate a current cash contribution. See the financial impact in Note (8).

## (15) Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to financial statements. All events and transactions have been evaluated through October 20, 2017, which is the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

**Delaware Transit Corporation**
Required Supplementary Information
June 30, 2017 and 2016

## Statement of Changes in Net Pension Liability and Related Ratios - DTC Plan

Last 10 Fiscal Years
*(Dollar amounts in thousands)*

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total pension liability** | | | | | | | | | | |
| Service cost | $ 873 | $ 843 | $ 840 | | | | | | | |
| Interest | 1,724 | 1,612 | 1,483 | | | | | | | |
| Changes of benefit terms | - | - | - | | | | | | | |
| Differences between expected and actual experience | (693) | (297) | - | | | | | | | |
| Benefit payments, including refunds of member contributions | (705) | (629) | (569) | | | | | | | |
| Net change in total pension liability | 1,199 | 1,529 | 1,754 | | | | | | | |
| Total pension liability - beginning | 23,341 | 21,812 | 20,058 | | | | | | | |
| Total pension liability - ending (a) | $ 24,540 | $ 23,341 | $ 21,812 | | | | | | | |
| **Plan fiduciary net position** | | | | | | | | | | |
| Contributions - employer | $ 1,104 | $ 1,176 | $ 1,158 | | | | | | | |
| Contributions - members | 81 | 57 | 30 | | | | | | | |
| Net investment income | 405 | 554 | 2,443 | | Information for FY2013 and earlier is not available. | | | | | |
| Benefit payments, including refunds of member contributions | (705) | (629) | (569) | | | | | | | |
| Administrative expense | (166) | (94) | (116) | | | | | | | |
| Net change in plan fiduciary net position | 719 | 1,064 | 2,946 | | | | | | | |
| Plan fiduciary net position - beginning | 21,949 | 20,885 | 17,939 | | | | | | | |
| Plan fiduciary net position - ending (b) | $ 22,668 | $ 21,949 | $ 20,885 | | | | | | | |
| **Net pension liability - ending (a) - (b)** | $ 1,872 | $ 1,392 | $ 927 | | | | | | | |
| **Plan fiduciary net position as a percentage of total pension liability** | 92.37 % | 94.04 % | 95.75 % | | | | | | | |
| **Covered-employee payroll** | $ 13,142 | $ 12,261 | $ 12,099 | | | | | | | |
| **Net pension liability as a percentage of covered-employee payroll** | 14.24 % | 11.35 % | 7.66 % | | | | | | | |
| **Expected average remaining service years of all participants** | 8.0 | 8.0 | 8.5 | | | | | | | |

**Notes to Schedule**

Benefit changes: None
Changes of assumptions: None

**Delaware Transit Corporation**
Required Supplementary Information
June 30, 2017 and 2016

**Statement of Changes in Net Pension Liability and Related Ratios - DART Plan**

Last 10 Fiscal Years
*(Dollar amounts in thousands)*

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total pension liability** | | | | | | | | | | |
| Service cost | $ 2,048 | $ 1,976 | $ 1,766 | | | | | | | |
| Interest | 3,209 | 2,925 | 2,675 | | | | | | | |
| Changes of benefit terms | 197 | 1,473 | 1,030 | | | | | | | |
| Differences between expected and actual experience | (217) | (112) | 4 | | | | | | | |
| Benefit payments, including refunds of member contributions | (2,411) | (2,134) | (2,103) | | | | | | | |
| Net change in total pension liability | 2,826 | 4,128 | 3,372 | | | | | | | |
| Total pension liability - beginning | 44,983 | 40,855 | 37,483 | | | | | | | |
| Total pension liability - ending (a) | $ 47,809 | $ 44,983 | $ 40,855 | | | | | | | |
| **Plan fiduciary net position** | | | | | | | | | | |
| Contributions - employer | $ 1,080 | $ 1,253 | $ 909 | | | | | | | |
| Contributions - members | 1,360 | 1,388 | 1,263 | | | | | | | |
| Net investment income | 2,550 | (869) | 2,605 | | Information for FY2013 and earlier is not available. | | | | | |
| Benefit payments, including refunds of member contributions | (2,411) | (2,134) | (2,103) | | | | | | | |
| Administrative expense | (94) | (100) | (133) | | | | | | | |
| Net change in plan fiduciary net position | 2,485 | (462) | 2,541 | | | | | | | |
| Plan fiduciary net position - beginning | 41,574 | 42,036 | 39,495 | | | | | | | |
| Plan fiduciary net position - ending (b) | $ 44,059 | $ 41,574 | $ 42,036 | | | | | | | |
| **Net pension liability - ending (a) - (b)** | $ 3,750 | $ 3,409 | $ (1,181) | | | | | | | |
| **Plan fiduciary net position as a percentage of total pension liability** | 92.16 % | 92.42 % | 102.89 % | | | | | | | |
| **Covered-employee payroll** | $ 27,472 | $ 28,203 | $ 27,627 | | | | | | | |
| **Net pension liability as a percentage of covered-employee payroll** | 13.65 % | 12.09 % | (4.27)% | | | | | | | |
| **Expected average remaining service years of all participants** | 8.8 | 8.8 | 8.3 | | | | | | | |

## Notes to Schedule

Benefit changes: None
Changes of assumptions: None

# Delaware Transit Corporation
Required Supplementary Information
June 30, 2017 and 2016

**Schedule of Contributions**

Last 10 Fiscal Years
*(Dollar amounts in thousands)*

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **DTC Plan, as of June 30,** | | | | | | | | | | |
| Actuarially determined contribution | $ 1,104 | $ 1,176 | $ 1,156 | | | | | | | |
| Contributions in relation to the actuarially determined contribution | 1,104 | 1,176 | 1,158 | | | | | | | |
| Contribution deficiency (excess) | $ - | $ - | $ (2) | Information for FY2013 and earlier is not available. | | | | | | |
| Covered-employee payroll | $ 13,142 | $ 12,261 | $ 12,371 | | | | | | | |
| Contributions as a percentage of covered-employee payroll | 8.40 % | 9.59 % | 9.36 % | | | | | | | |
| **DART Plan, as of December 31,** | | | | | | | | | | |
| Actuarially determined contribution | $ 1,012 | $ 857 | $ 635 | $ 773 | $ 715 | $ 598 | $ 611 | $ 859 | $ 683 | Information for FY2007 is not available. |
| Contributions in relation to the actuarially determined contribution | 1,079 | 1,253 | 908 | 1,250 | 1,080 | 1,074 | 1,082 | 1,063 | 996 | |
| Contribution deficiency (excess) | $ (67) | $ (396) | $ (273) | $ (477) | $ (365) | $ (476) | $ (471) | $ (204) | $ (313) | |
| Covered-employee payroll | $ 27,472 | $ 28,203 | $ 25,452 | $ 25,579 | $ 22,985 | $ 22,847 | $ 22,675 | $ 22,072 | $ 18,689 | |
| Contributions as a percentage of covered-employee payroll | 3.93 % | 4.44 % | 3.57 % | 4.89 % | 4.70 % | 4.70 % | 4.77 % | 4.82 % | 5.33 % | |

**Notes to Schedule**

*Valuation date*: Actuarially determined contribution amounts are calculated as of the beginning of the plan year (July 1 for the DTC Plan and January 1 for the DART Plan) for the year immediately following the fiscal year. Actuarial valuations are performed every year.

| *Methods and assumptions used to determine contribution rates for 2016*: | *DTC Plan* | *DART Plan* |
|---|---|---|
| Actuarial cost method | Entry age normal | Entry age normal |
| Amortization method | Level percentage of payroll (closed), increasing 2.0% per year | Level percentage of pay |
| Remaining amortization period | Range from 15 to 19 years | 15 years rolling |
| Asset valuation method | Five-year market smoothed | Five-year market smoothed |
| Inflation | 2.0% | 2.0% |
| Salary increases | 2.5%, including inflation | 4.0% |
| Investment rate of return | 7.5%, net of pension plan investment expense, including inflation | 7.0% |
| Retirement age | Rates vary by participant age and service | Rates vary by participant age and service |
| Mortality | RP-2000 Combined Healthy tables with generational projection by Scale AA | RP-2000 Blue Collar table without any future mortality improvements |

**Delaware Transit Corporation**
Required Supplementary Information
June 30, 2017 and 2016

## Schedule of Funding Status and Progress - OPEB Trust

The following table presents additional information related to funding status and funding progress. It is intended to help readers assess the individual plan's funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess (Deficit) of Assets Over AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Deficit) as a % of Covered Payroll ((a-b)/c) |
|---|---|---|---|---|---|---|
| 07/01/2016 | $ 2,506,000 | $ 125,906,000 | $ (123,400,000) | 1.99 % | $ 47,221,231 | (261.32)% |
| 07/01/2015 | $ 2,342,000 | $ 113,898,000 | $ (111,556,000) | 2.06 % | $ 44,602,886 | (250.11)% |
| 07/01/2014 | $ 2,189,000 | $ 104,434,000 | $ (102,245,000) | 2.10 % | $ 42,716,806 | (239.36)% |

## .SUPPLEMENTARY INFORMATION

**Delaware Transit Corporation**
Schedule of Revenues and Expenses Compared to Budget
June 30, 2017 and 2016

| | Budget (Unaudited) | Actual | Favorable (Unfavorable) |
|---|---|---|---|
| **Operating revenues** | | | |
| Passenger fares | $ 21,126,705 | $ 17,570,463 | $ (3,556,242) |
| Advertising | 550,000 | 519,372 | (30,628) |
| Miscellaneous | 1,050,000 | 1,317,588 | 267,588 |
| Auxiliary transportation | 600,000 | 1,139,031 | 539,031 |
| **Total operating revenues** | 23,326,705 | 20,546,454 | (2,780,251) |
| **Operating expenses before depreciation** | 118,279,778 | 123,595,650 | (5,315,872) |
| **Operating expenses in excess of operating revenues before depreciation** | (94,953,073) | (103,049,196) | (8,096,123) |
| **Nonoperating revenue (expenses)** | | | |
| Federal operating assistance | 7,125,473 | 7,483,704 | 358,231 |
| Pass-through grant revenue | - | 1,613,760 | 1,613,760 |
| Pass-through grant expense | - | (5,915,808) | (5,915,808) |
| **Excess of nonoperating revenues over expenses** | 7,125,473 | 3,181,656 | (3,943,817) |
| **Transfers from DelDOT for operating purposes** | | | |
| State operating assistance | 87,827,600 | 87,827,600 | - |
| State pass-though grant revenue | - | 3,845,934 | 3,845,934 |
| **Total transfers for operating purposes** | 87,827,600 | 91,673,534 | 3,845,934 |
| **Income before contributions and depreciation, net of gains on retirements on property and equipment** | $ - | $ (8,194,006) | $ (8,194,006) |

**Delaware Transit Corporation**
Schedule of Expenses by Mode - All Modes
Year Ended June 30, 2017

| | Vehicle Operations (10) | Vehicle Maintenance (41) | Nonvehicle Maintenance (42) | General Administration (160) | Total |
|---|---|---|---|---|---|
| **Payroll expense** | | | | | |
| Operator salaries | $ 26,499,720 | $ - | $ - | $ - | $ 26,499,720 |
| Other salaries | 4,327,828 | 5,942,831 | 482,435 | 6,506,961 | 17,260,055 |
| Fringe benefits | 28,127,668 | 5,538,506 | 561,898 | 8,271,231 | 42,499,303 |
| | 58,955,216 | 11,481,337 | 1,044,333 | 14,778,192 | 86,259,078 |
| **Professional fees and services** | | | | | |
| Professional and technical | 23,017 | - | 5,401 | 1,302,870 | 1,331,288 |
| Contract and maintenance | - | 1,214,335 | 1,951,182 | - | 3,165,517 |
| Security | - | - | 35,899 | 476,764 | 512,663 |
| Purchased transportation | 13,132,874 | - | - | - | 13,132,874 |
| Other | - | 13,195 | 182,453 | 1,924,058 | 2,119,706 |
| | 13,155,891 | 1,227,530 | 2,174,935 | 3,703,692 | 20,262,048 |
| **Material and supplies** | | | | | |
| Fuel and lubes | 5,501,197 | 89,533 | - | - | 5,590,730 |
| Tires and tubes | 820,425 | 7,364 | - | - | 827,789 |
| Other materials | 69,810 | 3,459,679 | 235,035 | 313,832 | 4,078,356 |
| | 6,391,432 | 3,556,576 | 235,035 | 313,832 | 10,496,875 |
| **Office and miscellaneous** | | | | | |
| Utilities | - | - | - | 873,510 | 873,510 |
| Insurance | - | 236,160 | 97,997 | 3,425,956 | 3,760,113 |
| Purchased transportation | - | - | - | - | - |
| Miscellaneous expenses: | | | | | |
| Due and subscriptions | - | - | - | 60,062 | 60,062 |
| Travel and meetings | - | - | - | 1,196,087 | 1,196,087 |
| Advertising | - | - | - | 458,970 | 458,970 |
| Facilities | - | - | 98,719 | - | 98,719 |
| Other | - | - | - | 130,188 | 130,188 |
| | - | 236,160 | 196,716 | 6,144,773 | 6,577,649 |
| **Total expenses** | $ 78,502,539 | $ 16,501,603 | $ 3,651,019 | $ 24,940,489 | $ 123,595,650 |

**Delaware Transit Corporation**
Schedule of Expenses by Mode - Fixed Route Directly Operated
Year Ended June 30, 2017

| | Vehicle Operations (10) | Vehicle Maintenance (41) | Nonvehicle Maintenance (42) | General Administration (160) | Total |
|---|---|---|---|---|---|
| **Payroll expense** | | | | | |
| Operator salaries | $ 13,560,130 | $ - | $ - | $ - | $ 13,560,130 |
| Other salaries | 1,565,758 | 4,015,442 | 178,067 | 2,221,203 | 7,980,470 |
| Fringe benefits | 10,794,275 | 3,086,948 | 136,691 | 1,842,232 | 15,860,146 |
| | 25,920,163 | 7,102,390 | 314,758 | 4,063,435 | 37,400,746 |
| **Professional fees and services** | | | | | |
| Professional and technical | 1,943 | - | 1,872 | 262,408 | 266,223 |
| Contract and maintenance | - | 569,299 | 720,183 | - | 1,289,482 |
| Security | - | - | 12,442 | 165,236 | 177,678 |
| Purchased transportation | - | - | - | - | - |
| Other | - | 9,274 | 63,234 | 686,185 | 758,693 |
| | 1,943 | 578,573 | 797,731 | 1,113,829 | 2,492,076 |
| **Material and supplies** | | | | | |
| Fuel and lubes | 3,137,742 | 34,368 | - | - | 3,172,110 |
| Tires and tubes | 582,645 | 2,815 | - | - | 585,460 |
| Other materials | 29,851 | 2,598,772 | 81,458 | 117,261 | 2,827,342 |
| | 3,750,238 | 2,635,955 | 81,458 | 117,261 | 6,584,912 |
| **Office and miscellaneous** | | | | | |
| Utilities | - | - | - | 302,740 | 302,740 |
| Insurance | - | 87,167 | 36,171 | 1,264,523 | 1,387,861 |
| Purchased transportation | - | - | - | - | - |
| Miscellaneous expenses: | | | | | |
| Due and subscriptions | - | - | - | 20,816 | 20,816 |
| Travel and meetings | - | - | - | 414,539 | 414,539 |
| Advertising | - | - | - | 315,017 | 315,017 |
| Facilities | - | - | 34,214 | - | 34,214 |
| Other | - | - | - | 45,120 | 45,120 |
| | - | 87,167 | 70,385 | 2,362,755 | 2,520,307 |
| **Total expenses** | $ 29,672,344 | $ 10,404,085 | $ 1,264,332 | $ 7,657,280 | $ 48,998,041 |

**Delaware Transit Corporation**
Schedule of Expenses by Mode - Paratransit Directly Operated
Year Ended June 30, 2017

| | Vehicle Operations (10) | Vehicle Maintenance (41) | Nonvehicle Maintenance (42) | General Administration (160) | Total |
|---|---|---|---|---|---|
| **Payroll expense** | | | | | |
| Operator salaries | $ 12,939,590 | $ - | $ - | $ - | $ 12,939,590 |
| Other salaries | 2,483,526 | 1,774,064 | 254,474 | 3,480,357 | 7,992,421 |
| Fringe benefits | 16,498,823 | 1,994,613 | 276,757 | 4,000,011 | 22,770,204 |
| | 31,921,939 | 3,768,677 | 531,231 | 7,480,368 | 43,702,215 |
| **Professional fees and services** | | | | | |
| Professional and technical | 3,045 | - | 2,933 | 916,069 | 922,047 |
| Contract and maintenance | - | 427,584 | 1,029,205 | - | 1,456,789 |
| Security | - | - | 19,495 | 258,905 | 278,400 |
| Purchased transportation | - | - | - | - | - |
| Other | - | 2,141 | 99,081 | 1,021,939 | 1,123,161 |
| | 3,045 | 429,725 | 1,150,714 | 2,196,913 | 3,780,397 |
| **Material and supplies** | | | | | |
| Fuel and lubes | 2,350,279 | 49,115 | - | - | 2,399,394 |
| Tires and tubes | 181,951 | 4,023 | - | - | 185,974 |
| Other materials | 34,144 | 619,503 | 127,635 | 160,368 | 941,650 |
| | 2,566,374 | 672,641 | 127,635 | 160,368 | 3,527,018 |
| **Office and miscellaneous** | | | | | |
| Utilities | - | - | - | 474,356 | 474,356 |
| Insurance | - | 124,569 | 51,691 | 1,807,116 | 1,983,376 |
| Purchased transportation | - | - | - | - | - |
| Miscellaneous expenses: | | | | | |
| Due and subscriptions | - | - | - | 32,617 | 32,617 |
| Travel and meetings | - | - | - | 649,530 | 649,530 |
| Advertising | - | - | - | 64,558 | 64,558 |
| Facilities | - | - | 53,609 | - | 53,609 |
| Other | - | - | - | 70,698 | 70,698 |
| | - | 124,569 | 105,300 | 3,098,875 | 3,328,744 |
| **Total expenses** | $ 34,491,358 | $ 4,995,612 | $ 1,914,880 | $ 12,936,524 | $ 54,338,374 |

# Delaware Transit Corporation

Schedule of Expenses by Mode - Fixed Route Purchased Transportation

Year Ended June 30, 2017

| | Vehicle Operations (10) | Vehicle Maintenance (41) | Nonvehicle Maintenance (42) | General Administration (160) | Total |
|---|---|---|---|---|---|
| **Payroll expense** | | | | | |
| Operator salaries | $ - | $ - | $ - | $ - | $ - |
| Other salaries | 212,681 | 134,524 | 42,014 | 598,264 | 987,483 |
| Fringe benefits | 623,027 | 396,049 | 123,084 | 1,798,497 | 2,940,657 |
| | 835,708 | 530,573 | 165,098 | 2,396,761 | 3,928,140 |
| **Professional fees and services** | | | | | |
| Professional and technical | 18,029 | - | 453 | 63,513 | 81,995 |
| Contract and maintenance | - | 151,918 | 169,925 | - | 321,843 |
| Security | - | - | 3,011 | 39,993 | 43,004 |
| Purchased transportation | 3,564,490 | - | - | - | 3,564,490 |
| Other | - | 966 | 15,305 | 166,083 | 182,354 |
| | 3,582,519 | 152,884 | 188,694 | 269,589 | 4,193,686 |
| **Material and supplies** | | | | | |
| Fuel and lubes | 13,064 | 5,095 | - | - | 18,159 |
| Tires and tubes | 51,687 | 443 | - | - | 52,130 |
| Other materials | 4,742 | 233,215 | 19,716 | 28,380 | 286,053 |
| | 69,493 | 238,753 | 19,716 | 28,380 | 356,342 |
| **Office and miscellaneous** | | | | | |
| Utilities | - | - | - | 73,275 | 73,275 |
| Insurance | - | 20,567 | 8,534 | 298,360 | 327,461 |
| Purchased transportation | - | - | - | - | - |
| Miscellaneous expenses: | | | | | |
| Due and subscriptions | - | - | - | 5,038 | 5,038 |
| Travel and meetings | - | - | - | 100,334 | 100,334 |
| Advertising | - | - | - | 76,246 | 76,246 |
| Facilities | - | - | 8,281 | - | 8,281 |
| Other | - | - | - | 10,921 | 10,921 |
| | - | 20,567 | 16,815 | 564,174 | 601,556 |
| **Total expenses** | $ 4,487,720 | $ 942,777 | $ 390,323 | $ 3,258,904 | $ 9,079,724 |

# Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Purchased Transportation
Year Ended June 30, 2017

| | Vehicle Operations (10) | Vehicle Maintenance (41) | Nonvehicle Maintenance (42) | General Administration (160) | Total |
|---|---|---|---|---|---|
| **Payroll expense** | | | | | |
| Operator salaries | $ - | $ - | $ - | $ - | $ - |
| Other salaries | 65,863 | 18,801 | 7,880 | 188,926 | 281,470 |
| Fringe benefits | 211,543 | 60,896 | 25,366 | 622,660 | 920,465 |
| | 277,406 | 79,697 | 33,246 | 811,586 | 1,201,935 |
| **Professional fees and services** | | | | | |
| Professional and technical | - | - | 143 | 21,672 | 21,815 |
| Contract and maintenance | - | 65,534 | 31,869 | - | 97,403 |
| Security | - | - | 951 | 12,630 | 13,581 |
| Purchased transportation | 1,213,147 | - | - | - | 1,213,147 |
| Other | - | 814 | 4,833 | 49,851 | 55,498 |
| | 1,213,147 | 66,348 | 37,796 | 84,153 | 1,401,444 |
| **Material and supplies** | | | | | |
| Fuel and lubes | 112 | 955 | - | - | 1,067 |
| Tires and tubes | 4,142 | 83 | - | - | 4,225 |
| Other materials | 1,073 | 8,189 | 6,226 | 7,823 | 23,311 |
| | 5,327 | 9,227 | 6,226 | 7,823 | 28,603 |
| **Office and miscellaneous** | | | | | |
| Utilities | - | - | - | 23,139 | 23,139 |
| Insurance | - | 3,857 | 1,601 | 55,957 | 61,415 |
| Purchased transportation | - | - | - | - | - |
| Miscellaneous expenses: | | | | | |
| Due and subscriptions | - | - | - | 1,591 | 1,591 |
| Travel and meetings | - | - | - | 31,684 | 31,684 |
| Advertising | - | - | - | 3,149 | 3,149 |
| Facilities | - | - | 2,615 | - | 2,615 |
| Other | - | - | - | 3,449 | 3,449 |
| | - | 3,857 | 4,216 | 118,969 | 127,042 |
| **Total expenses** | $ 1,495,880 | $ 159,129 | $ 81,484 | $ 1,022,531 | $ 2,759,024 |

**Delaware Transit Corporation**
Schedule of Expenses by Mode - Rail
Year Ended June 30, 2017

| | Vehicle Operations (10) | Vehicle Maintenance (41) | Nonvehicle Maintenance (42) | General Administration (160) | Total |
|---|---|---|---|---|---|
| **Payroll expense** | | | | | |
| Operator salaries | $ - | $ - | $ - | $ - | $ - |
| Other salaries | - | - | - | 18,211 | 18,211 |
| Fringe benefits | - | - | - | 7,831 | 7,831 |
| | - | - | - | 26,042 | 26,042 |
| **Professional fees and services** | | | | | |
| Professional and technical | - | - | - | 39,208 | 39,208 |
| Contract and maintenance | - | - | - | - | - |
| Security | - | - | - | - | - |
| Purchased transportation | 8,355,237 | - | - | - | 8,355,237 |
| Other | - | - | - | - | - |
| | 8,355,237 | - | - | 39,208 | 8,394,445 |
| **Material and supplies** | | | | | |
| Fuel and lubes | - | - | - | - | - |
| Tires and tubes | - | - | - | - | - |
| Other materials | - | - | - | - | - |
| | - | - | - | - | - |
| **Office and miscellaneous** | | | | | |
| Utilities | - | - | - | - | - |
| Insurance | - | - | - | - | - |
| Purchased transportation | - | - | - | - | - |
| Miscellaneous expenses: | | | | | |
| Due and subscriptions | - | - | - | - | - |
| Travel and meetings | - | - | - | - | - |
| Advertising | - | - | - | - | - |
| Facilities | - | - | - | - | - |
| Other | - | - | - | - | - |
| | - | - | - | - | - |
| **Total expenses** | $ 8,355,237 | $ - | $ - | $ 65,250 | $ 8,420,487 |

Santora CPA Group
*Right, By Your Side*

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

The Board of Trustees
Delaware Transportation Authority
Delaware Transit Corporation
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Delaware Transit Corporation (DTC), a blended component unit of the Delaware Transit Authority, which is a component unit of the State of Delaware as of and for the Fiscal Year Ended June 30, 2017, and the related notes to financial statements, which collectively comprise DTC's basic financial statements, and have issued our report thereon dated October 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered DTC's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control. Accordingly, we do not express an opinion on the effectiveness of DTC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of DTC's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as Finding DTC-2017-1 in the accompanying *Schedule of Findings* to be a material weakness.



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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as Finding DTC-2017-2 in the accompanying *Schedule of Findings* to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether DTC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**DTC's Responses to Findings**

DTC's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings*. DTC's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DTC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DTC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Santora CPA Group

October 20, 2017
Newark, Delaware

**Finding DTC-2017-1: Management Review Process (Material Weakness)**
**Prior Year Finding DTC-2016-3**

***Background***

DTC's management has the overall responsibility for the preparation and fair presentation of their financial results on a monthly, quarterly, and annual basis. During our audit, we identified the following deficiencies in internal control over management review of the financial reporting process.

***Condition***

- Monthly bank reconciliations are completed by the Controller based on the Revenue Control Accountant's daily deposit reconciliations/bank deposit slips. These monthly bank reconciliations are not reviewed by an individual other than the preparer.

- There was no evidence that a monthly or year-end reconciliation of the accounts payable subledger (Open Payables Report) to the general ledger was completed for Fiscal Year 2017. We did not receive the Open Payables Report for audit on a timely basis. The report total did not reconcile to the general ledger by $308,569; DTC could not explain the cause of the variance.

- The June 30, 2017 payroll reconciliation was not provided in a timely manner. Reconciliation and review of reconciliation of significant accounts such as payroll should be performed timely to ensure that all expenses and related liabilities are recorded in the proper period.

- During audit procedures, management recorded late adjustments to operating revenues, operating expenses, assets, liabilities, and unrestricted net position. Specific accounts included trade accounts receivable, inventory, compensated absences, and miscellaneous revenue. Reconciliation and review of reconciliations should be performed timely in order to ensure appropriate reporting of monthly, quarterly, and annual financial statements.

***Criteria***

Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, defines control activities as "policies and procedures that help ensure management directives are carried out." Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents. Management review controls are defined as activities of a person different than the preparer analyzing and performing oversight of activities performed and is an integral part of any internal control structure.

***Cause***

There is no formal review process or timeliness guidelines in place for those reconciliations mentioned above.

***Effect***

Although some of the reconciliations were complete and accurately stated, lack of a management review control may and did result in incomplete or inaccurate amounts being reported.

***Recommendation***

We recommend that DTC implement a formal management review process for the above-mentioned reconciliations, including documentation of the reviewer's signature/initials and dates on the reconciliation packets to evidence management review and approval of the completeness and accuracy of the reconciliations and that reconciling items are appropriately documented and reasonable.

***View of Responsible Officials***

These findings, in relation to a few items, were due to staff turnover and new staff coming up to speed on DTC's processes. As a result, management had to prepare documents while simultaneously training staff and perform tasks normally assigned to subordinate personnel. Therefore, management was not able to effectively conduct secondary reviews as they had to prepare the work and ensure transactions are recorded and reported in a timely manner. Management has hired, and is in the process of hiring, additional qualified and experienced personnel to implement an effective management review process and ensure transactions are processed timely. In light of these issues, DTC management accepts SCG's recommendation and has taken the necessary actions to ensure they are implemented. DTC is committed to ensuring all transactions are accounted for, reconciled, and accurately reflected in the financial statements.

**Finding DTC-2017-2: Deferred Passenger Revenue (Significant Deficiency)**

***Background***

DTC offers customers pre-purchased stored value cards that can be used to ride any DART fixed route bus in Delaware at a 20% to 40% discount off the regular fares. These cards can be purchased at various locations, or via phone, fax, mail, and online. Revenues from these DART cards are recognized at the point of sale.

***Condition***

During testing of these DART cards, it was noted that management does not have a process and control in place to determine the amount of revenue earned on the pre-paid cards that had not been redeemed at the Fiscal Year Ended June 30, 2017.

**Delaware Transit Corporation**
Schedule of Findings
June 30, 2017

***Criteria***

Internal Control – Integrated Framework, published by the COSO, defines control activities as "policies and procedures that help ensure management directives are carried out." Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents. Management review controls are defined as activities of a person different than the preparer analyzing and performing oversight of activities performed and is an integral part of any internal control structure.

***Cause***

There is no formal process or guidelines in place to determine the amount deemed as unearned revenue from DART card sales.

***Effect***

Although the amount is not deemed to be material to the financial statements, the lack of a formal process can result in inaccurate reporting of passenger revenues.

***Recommendation***

We recommend that DTC implement a formal process and guidelines to determine the amount of passenger revenue deemed unearned at Fiscal Year End and whether it is material to report in the annual financial statements.

***View of Responsible Officials***

DTC has a regular monthly process that records and assesses what we may deem as unearned revenue from the sale of its DART cards. However, as a result of the audit, our practice may not be the most accurate methodology for determining our unearned revenue. DTC will reexamine its data calculations and processes to ensure we are accurately reporting, or not reporting based on immateriality thresholds, unearned revenue at Fiscal Year End.