

**DELAWARE TRANSIT CORPORATION**

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**DELAWARE TRANSIT  
CORPORATION**

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

## **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, a discretely presented component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, which comprise the statement of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 audit 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 the entity'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 the entity'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.

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

#### ***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Delaware Transit Corporation as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



## ***Other Matters***

### ***Required Supplementary Information***

U.S generally accepted accounting principles require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the accompanying 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 the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of revenues and expenses compared to budget and schedules of expenses by mode are presented for the purposes of additional analysis and are not required part of the basic financial statements. The 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. The schedule of expenses by mode and the amounts reported as "actual" within the schedule of revenues and expenses compared to the budget, have 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 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 *Governmental Auditing Standards*, we have also issued our report dated November 5, 2014 on our consideration of the Delaware Transit Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 the Delaware Transit Corporation's internal control over financial reporting and compliance.

**KPMG LLP**

Philadelphia, Pennsylvania  
November 5, 2014

# DELAWARE TRANSIT CORPORATION

## Management's Discussion and Analysis

June 30, 2014 and 2013

This section of 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, 2014 and 2013.

### Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates DART First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of the Delaware Administration for Regional Transit, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 236 fixed route and 300 paratransit vehicles on 70 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 13 park-and-pool lots with an estimated 5,303 parking spaces. DTC maintains approximately 2,719 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 carry over 12.2 million riders per year.

### Financial Highlights

- The 2014 operating revenues were approximately \$18.7 million and were \$1.7 million higher than 2013 operating revenues. Passenger and parking revenues contributed to the increase, primarily due to fare and parking rate increases.
- Total 2014 operating expenses before depreciation were approximately \$126.0 million and were \$9.4 million higher than 2013 operating expenses. The increase in operating expenses before depreciation is largely due to increased costs for wages, benefits, and consumables.
- A \$31.6 million investment was made in capital assets during the current year (the funding was \$5.7 million in state capital grants and \$25.9 million in federal capital grants). This is primarily attributable to purchase revenue vehicles.

### Overview of the Financial Statements

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

The financial statements provide both long-term 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 a section of required supplementary information that further explains and supports the information in the financial statements.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2014 and 2013

DTC's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 of DTC

##### *Statements of Net Position*

Total assets increased \$17.0 million to \$162.6 million. Total liabilities increased \$21.9 million to \$115.9 million in 2014 due to increases in other post-employment benefits payable. Total net position at June 30, 2014 was approximately \$46.7 million, a \$4.9 million decrease from June 30, 2013.

	2014	2013	2012
Current assets	\$ 36.7	\$ 33.3	\$ 31.4
Capital assets	122.2	109.0	108.9
Other noncurrent assets	3.7	3.3	3.0
Total assets	162.6	145.6	143.3
Current liabilities	13.2	9.2	9.8
Noncurrent liabilities	102.7	84.8	68.8
Total liabilities	115.9	94.0	78.6
Net position			
Restricted	3.7	3.3	3.0
Invested in capital assets	122.2	109.0	108.9
Unrestricted	(79.2)	(60.7)	(47.2)
Total net position	\$ 46.7	\$ 51.6	\$ 64.7

The increase in total liabilities was due to an increase in other post-employment benefits payable. The large decrease in unrestricted net position is primarily the result of DTC's recognition of other post-employment expenses of \$15.5 million and \$15.7 million for fiscal years ended June 30, 2014 and 2013, respectively, and not providing funding for the annual required contribution.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2014 and 2013

#### Change in Net Position

The decrease in net position as of June 30, 2014 was approximately \$4.9 million, which is a decrease in net position of 9.5% over 2013. The increase in DTC's 2014 total operating revenues of \$1.7 million is primarily due to increased passenger revenues. Total operating expenses before depreciation increased 8.1% to approximately \$126.0 million.

#### Change in the Delaware Transit Corporation's Net Position

(In millions of dollars)

	2014	2013	2012
Operating Revenues:			
Passenger revenue	\$ 16.3	\$ 14.6	\$ 14.6
Other operating revenue	2.4	2.4	2.2
Total operating revenue	18.7	17.0	16.8
Operating Expenses:			
Total operating expenses before depreciation	126.0	116.7	114.4
Depreciation	18.9	17.0	17.2
Total operating expenses	144.9	133.7	131.6
Operating (Loss) Gain:	(126.2)	(116.7)	(114.8)
Non operating revenues, net:	4.1	1.0	1.2
Capital contributions	25.9	14.0	16.6
Transfers from DelDOT	91.3	88.6	84.4
Change in net position	(4.9)	(13.1)	(12.6)
Total net position -beginning of year	\$ 51.6	64.7	77.3
Total net position-end of year	\$ 46.7	\$ 51.6	\$ 64.7

## **DELAWARE TRANSIT CORPORATION**

### **Management's Discussion and Analysis**

June 30, 2014 and 2013

The increases in operating expenses over 2014 and 2013 are due to the increased costs relating to salaries and fringe benefits, as well as other post-employment benefits.

Capital contributions were up \$11.9 million due to timing related to vehicles replacement and expansion schedules.

#### ***Capital Assets***

As of June 30, 2014 and 2013, DTC had approximately \$247.8 million and \$218.8 million, respectively, invested in capital assets, which includes land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's capital assets at June 30, 2014 and 2013 totaled approximately \$122.2 million and \$109.0 million, respectively.

Net capital assets increased \$13.2 million and \$0.1 million during the years ended June 30, 2014 and 2013, respectively. The increase in capital assets for the year ended June 30, 2014 is primarily attributed to the purchase of 90 replacement and 8 expansion revenue vehicles amounting to \$31.8 million, offset by depreciation expense of \$18.4 million.

Assets disposed of during 2014 and 2013 totaled \$2.9 million and \$9.0 million, respectively. Disposals related primarily to the replacement of revenue vehicles.

#### ***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 2014 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 2015 total operating budget is \$111.5 million, which is 4.1% higher than fiscal year's 2014 operating budget. The capital budget is \$70.1 million, which authorizes funding for the purchase of replacement and expansion transit vehicles, facility construction, and rail projects.

Governmental Accounting Standards Board (GASB) 45 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 45 requires calculation of the unfunded actuarial accrued liability and annual required contribution related to these post-retirement benefits. The pay-as-you-go cash basis costs associated with these benefits were \$1.2 million and \$1.1 million for the years ended June 30, 2014 and 2013, respectively. The impact on the financial statements based upon this standard was the recognition of \$15.5 million and \$15.7 million in benefit expenses for the years ended June 30, 2014 and 2013, respectively. DTC expects a similar impact in the 2015 financial statements.

**DELAWARE TRANSIT CORPORATION**

Management's Discussion and Analysis

June 30, 2014 and 2013

***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 any questions about this report or need additional financial information, contact Delaware Transit Corporation, 900 Public Safety Boulevard, Dover, DE 19901

# DELAWARE TRANSIT CORPORATION

## Statements of Net Position

June 30, 2014 and 2013

Assets	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 29,394,671	\$ 26,246,530
Receivables:		
Trade	1,094,618	1,262,030
State	566,187	125,494
Federal	1,815,789	437,295
Other agencies	-	1,437
Inventory of supplies and fuel	3,573,192	4,068,114
Escrow insurance deposits	144,386	181,562
Prepaid expenses	68,939	960,012
<b>Total Current Assets</b>	<u>36,657,782</u>	<u>33,282,474</u>
<b>Noncurrent Assets</b>		
Capital assets	247,799,901	218,848,553
Less accumulated depreciation	<u>125,596,078</u>	<u>109,811,134</u>
	122,203,823	109,037,419
Prepaid pension restricted	<u>3,707,985</u>	<u>3,312,091</u>
<b>Total Noncurrent Assets</b>	<u>125,911,808</u>	<u>112,349,510</u>
<b>Total Assets</b>	<u>\$ 162,569,590</u>	<u>\$ 145,631,984</u>

See Accompanying Notes to Financial Statements

# DELAWARE TRANSIT CORPORATION

## Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 7,763,668	\$ 3,910,580
Accrued payroll and related expenses	1,863,691	1,653,905
Compensated absences	1,060,499	1,055,130
Other accrued expenses	108,521	126,748
Insurance loss reserve	2,427,420	2,454,975
<b>Total Current Liabilities</b>	<u>13,223,799</u>	<u>9,201,338</u>
<b>Noncurrent Liabilities</b>		
Compensated absences - net of current portion	2,131,193	1,899,249
Insurance loss reserve - net of current portion	9,583,580	7,392,025
Post-employment benefits payable	90,958,540	75,498,140
<b>Total Noncurrent Liabilities</b>	<u>102,673,313</u>	<u>84,789,414</u>
<b>Total Liabilities</b>	115,897,112	93,990,752
<b>Net Position</b>		
Restricted - pension obligations	3,707,985	3,312,091
Investment in capital assets	122,203,823	109,037,419
Unrestricted (Defecit)	(79,239,330)	(60,708,278)
<b>Total Net Position</b>	<u>46,672,478</u>	<u>51,641,232</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 162,569,590</u>	<u>\$ 145,631,984</u>

**DELAWARE TRANSIT CORPORATION**

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Passenger fares	\$ 16,332,281	\$ 14,589,391
Advertising	622,709	591,458
Miscellaneous	1,060,340	1,224,811
Auxilliary transportation	650,476	619,051
<b>Total Operating Revenues</b>	<b>18,665,806</b>	<b>17,024,711</b>
<b>Operating Expenses</b>		
Payroll expense	79,920,236	76,062,520
Professional fees and services	20,854,491	18,312,568
Materials and supplies	15,145,329	14,319,203
Office and miscellaneous	10,114,301	7,952,177
<b>Total Operating Expenses Before Depreciation</b>	<b>126,034,357</b>	<b>116,646,468</b>
Depreciation	18,872,589	17,017,190
<b>Total Operating Expenses</b>	<b>144,906,946</b>	<b>133,663,658</b>
Operating loss	(126,241,140)	(116,638,947)
<b>Nonoperating revenues (expenses)</b>		
Federal operating assistance	5,901,601	2,953,908
Pass-through grant revenue	4,074,199	12,367,381
Pass-through grant expense	(5,973,876)	(14,362,027)
Investment income	24,083	64,592
<b>Excess of nonoperating revenue over nonoperating expenses</b>	<b>4,026,007</b>	<b>1,023,854</b>
Loss before contributions and tranfers	(122,215,133)	(115,615,093)
Capital contributions	25,908,423	13,979,704
Transfers from DelDOT	91,337,956	88,550,232
Change in net position	(4,968,754)	(13,085,157)
Total net position – beginning of year	51,641,232	64,726,389
Total net position – end of year	<b>\$ 46,672,478</b>	<b>\$ 51,641,232</b>

See Accompanying Notes to Financial Statements

**DELAWARE TRANSIT CORPORATION**

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Cash Flows From Operating Activities</b>		
Receipts from passengers	\$ 16,508,029	\$ 15,290,464
Payments to suppliers	(34,731,205)	(42,420,099)
Payments to employees	(64,408,631)	(55,576,023)
Insurance claims paid	(3,960,884)	(3,848,013)
Other receipts	2,333,525	2,435,320
<b>Net Cash Used In Operating Activities</b>	<b>(84,259,166)</b>	<b>(84,118,351)</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Federal operating subsidies	4,516,222	2,953,908
Pass-through grant revenue receipts	4,074,199	12,367,381
Pass-through grant revenue payments	(5,973,876)	(14,362,027)
Transfers from DelDOT	85,445,937	84,922,467
<b>Net Cash Provided By Noncapital Financing Activities</b>	<b>88,062,482</b>	<b>85,881,729</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from capital contribution	24,559,755	13,697,096
Transfers from DelDOT	5,892,019	3,582,813
Acquisition of capital assets	(31,621,980)	(17,610,867)
Proceeds from sale of land and equipment	453,772	460,200
<b>Net Cash (Used In) Provided by Capital And Related Financing Activities</b>	<b>(716,434)</b>	<b>129,242</b>
<b>Cash Flows From Investing Activities</b>		
Payments (to) from insurance escrow account	37,176	135,398
Investment income received	24,083	64,592
<b>Net cash provided by investing activities</b>	<b>61,259</b>	<b>199,990</b>
<b>Net Increase In Cash And Cash Equivalents</b>	<b>3,148,141</b>	<b>2,092,610</b>
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<b>26,246,530</b>	<b>24,153,920</b>
<b>Cash And Cash Equivalents - End of Year</b>	<b>\$ 29,394,671</b>	<b>\$ 26,246,530</b>
<b>Reconciliation Of Operating Loss To Net Cash Used In Operating Activities</b>		
Operating loss	\$ (126,241,140)	\$ (116,638,947)
<b>Adjustments To Reconcile Operating Loss To Net Cash Used In Operating Activities</b>		
Depreciation, net of gains on retirements of property and equipment	18,872,589	17,017,190
<b>Decrease (Increase) Assets:</b>		
Trade accounts receivable	175,748	701,074
Inventories	494,922	(137,292)
Prepaid expenses & insurance deposits	928,249	(173,846)
Prepaid pension	(395,894)	(292,218)
<b>(Decrease) Increase Liabilities:</b>		
Increase in accounts payable and other accrued expenses	3,834,861	253,738
Increase in insurance loss reserve	2,164,000	838,000
Increase in compensated absences	237,313	177,785
Decrease in accrued payroll and related expenses	209,786	(341,127)
Increase in post-employment benefits	15,460,400	14,477,292
<b>Net Cash Used In Operating Activities</b>	<b>\$ (84,259,166)</b>	<b>\$ (84,118,351)</b>

See Accompanying Notes to Financial Statements

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2014 and 2013

### (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). 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) **Significant Accounting Policies**

#### (a) ***Reporting Entity***

DTC 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).

#### (b) ***Basis of Accounting***

DTC operates as a special-purpose government engaged solely in business-type activities. The 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.

#### (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.

Included in cash at June 30, 2014 and 2013 was \$11,866,614 and \$9,665,438, respectively, which will be utilized to fund the remaining unpaid loss insurance liability (Note 11) less the escrow insurance deposits.

#### (d) ***Inventories***

Inventories are accounted for at the lower of cost or market. Cost is determined using the average cost method.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2014 and 2013

**(e) 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
Communication equipment	10 – 40 years
Furniture and fixtures	3 – 10 years
Bus signs and shelters	10 years

**(f) Compensated Absences**

Substantially all employees receive compensation for vacations, illness, and certain other qualifying absences. The number of days compensated in the various categories of absence is based generally on length of service. Compensated absences that have been earned but not paid have been recorded in the accompanying financial statements.

**(g) Customer Fares**

Customer fares are recorded as revenue at the time services are provided to passengers.

**(h) Allowance for Uncollectible Accounts**

Management charges revenue with doubtful accounts when they are considered uncollectible. At June 30, 2014 and 2013, there was no allowance for doubtful accounts.

**(i) 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.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

**(j) Revenues and Expenses**

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.

**(k) Pass-Through Revenues and Expenses**

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

**(l) New Accounting Standards Adopted**

In fiscal year 2014, DTC adopted the following standards:

DTC adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. Statement No. 65 amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. There was no impact on the financial statements from implementing this standard.

DTC adopted GASB Statement No. 70 “Accounting and Reporting for Non-exchange Financial Guarantees.” Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a non-exchange transaction). As a part of this non-exchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a non-exchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. There was no impact on the financial statements from implementing this standard.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

#### (3) Cash and Investments

##### (a) *Cash Management Policy*

DTC follows the guidelines and requirements issued and adopted by the Cash Management Policy Board of the State. The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to DTC. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds*, all deposits of DTC are categorized as "DTC Accounts." The Policy is available on the Internet at <http://delcode.delaware.gov/title29/c061/index.shtml>.

##### (b) *Custodial Credit Risk*

Deposits - All deposits are held by one financial institution and are carried at cost. The carrying amounts of DTC's deposits at June 30, 2014 and 2013 were \$29,394,671 and \$26,246,530, respectively, and the bank balances were \$30,195,559 and \$26,613,759, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The bank balances at June 30, 2014 and 2013 of \$30,195,559 and \$26,613,759 were covered up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and the remainder by collateral held by DTC's Trustee, in DTC's name.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

#### (4) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 1,872,536	\$ -	\$ -	\$ 1,872,536
<b>Total Capital Assets Not Being Depreciated</b>	1,872,536	-	-	1,872,536
<b>Capital Assets Being Depreciated</b>				
Building	53,854,696	2,898,814	(401)	56,753,109
Revenue Vehicles	127,868,237	23,831,739	(2,803,225)	148,896,751
Service Vehicles and Equipment	8,045,309	507,929	(67,975)	8,485,263
Communication Equipment	22,333,269	2,930,442	(160)	25,263,551
Furniture and Fixtures	737,999	17,318	(2,563)	752,754
Bus Signs and Shelters	4,136,507	1,639,850	(420)	5,775,937
<b>Subtotal</b>	216,976,017	31,826,092	(2,874,744)	245,927,365
<b>Less: Accumulated Depreciation:</b>				
Building	18,536,013	2,013,959	-	20,549,972
Revenue Vehicles	66,044,486	14,043,130	(2,564,423)	77,523,193
Service Vehicles and Equipment	5,529,766	830,280	(66,914)	6,293,132
Communication Equipment	16,542,223	1,190,143	(67)	17,732,299
Furniture and Fixtures	490,387	42,771	(2,469)	530,689
Bus Signs and Shelters	2,668,259	298,534	-	2,966,793
<b>Subtotal</b>	109,811,134	18,418,817	(2,633,873)	125,596,078
<b>Total Capital Assets Being Depreciated, Net</b>	107,164,883	13,407,275	(240,871)	120,331,287
<b>Total Capital Assets, Net</b>	\$ 109,037,419	\$ 13,407,275	\$ (240,871)	\$ 122,203,823

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

Capital asset activity for the year ended June 30, 2013 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 1,872,536	\$ -	\$ -	\$ 1,872,536
<b>Total Capital Assets Not Being Depreciated</b>	1,872,536	-	-	1,872,536
<b>Capital Assets Being Depreciated</b>				
Building	51,959,711	1,894,985	-	53,854,696
Revenue Vehicles	124,774,737	11,936,227	(8,842,727)	127,868,237
Service Vehicles and Equipment	7,916,703	298,700	(170,094)	8,045,309
Communication Equipment	18,711,043	3,622,226	-	22,333,269
Furniture and Fixtures	711,554	32,040	(5,595)	737,999
Bus Signs and Shelters	3,945,621	202,690	(11,804)	4,136,507
<b>Subtotal</b>	208,019,369	17,986,868	(9,030,220)	216,976,017
<b>Less: Accumulated Depreciation:</b>				
Building	16,643,316	1,892,697	-	18,536,013
Revenue Vehicles	60,782,573	13,715,748	(8,453,835)	66,044,486
Service Vehicles and Equipment	4,854,675	843,832	(168,741)	5,529,766
Communication Equipment	15,859,368	682,855	-	16,542,223
Furniture and Fixtures	421,955	73,167	(4,735)	490,387
Bus Signs and Shelters	2,426,076	250,104	(7,921)	2,668,259
<b>Subtotal</b>	100,987,963	17,458,403	(8,635,232)	109,811,134
<b>Total Capital Assets Being Depreciated, Net</b>	107,031,406	528,465	(394,988)	107,164,883
<b>Total Capital Assets, Net</b>	\$ 108,903,942	\$ 528,465	\$ (394,988)	\$ 109,037,419

Depreciation expense for the years ended June 30, 2014 and 2013 was \$18,418,817 and \$17,458,403, respectively.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

#### (5) Long-term Liabilities:

Long-term liability activity for the year ended June 30, 2014 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated Absences	\$ 2,954,379	\$ 237,313	\$ -	\$ 3,191,692	\$ 1,060,499
Loss Reserve-Insurance	9,847,000	4,550,086	(2,386,086)	12,011,000	2,427,420
Post-Employment Benefit	75,498,140	16,748,000	(1,287,600)	90,958,540	-
<b>Long-term Liabilities</b>	<b>\$ 88,299,519</b>	<b>\$ 21,535,399</b>	<b>\$ (3,673,686)</b>	<b>\$ 106,161,232</b>	<b>\$ 3,487,919</b>

Long-term liability activity for the year ended June 30, 2013 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated Absences	\$ 2,776,594	\$ 177,785	\$ -	\$ 2,954,379	\$ 1,055,130
Loss Reserve-Insurance	9,009,000	4,686,013	(3,848,013)	9,847,000	2,454,975
Post-Employment Benefit	61,020,848	15,671,000	(1,193,708)	75,498,140	-
<b>Long-term Liabilities</b>	<b>\$ 72,806,442</b>	<b>\$ 20,534,798</b>	<b>\$ (5,041,721)</b>	<b>\$ 88,299,519</b>	<b>\$ 3,510,105</b>

#### (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 covers the period starting March 1, 2002 through November 30, 2007.

Paratransit Specialists statewide and South District Fixed Route Operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008.

During January 2013, due to an arbitration award between the Delaware Transit Corporation and Amalgamated Transit Union AFL-CIO, Local 842, the previously mentioned collective bargaining agreements were amended for a three year term, effective September 1, 2010 through August 31, 2013.

As of the expiration of the arbitration agreement through the report date of the financial statements, DTC is still negotiating terms for a new contract with the Amalgamated Transit Union, Local 842, AFL-CIO.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the current Collective Bargaining Agreement is from January 1, 2007 through December 31, 2009. DTC is still negotiating terms for a new contract with the Professional Employee International Union, Local 32, AFL-CIO.

#### **(7) Defined Benefit Pension Plans**

##### ***(a) Plan Descriptions***

DTC contributes to the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local 842, Amalgamated Transit Union and Local 32, Office and Professional Employee International Union which are single-employer defined benefit pension plans. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

##### ***b) Funding Policy and Annual Pension Cost***

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan are as follows:

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2014 and 2013

**Schedule of Annual Pension Cost, Actuarial Methods and Assumptions  
(Expressed in Dollars)**

<b>Plan</b>	<b>DTC Pension Plan</b>	<b>Contributory Pension Plan</b>
Contribution Rates:		
Employer	8.70% *	5.00%
Participants	3.00%	5.00%
Annual Pension Cost	\$ 1,156,145	\$ 853,917
Contributions Made	\$ 1,156,072	\$ 1,249,884
Actuarial Valuation Date	07/01/13	01/01/14
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Open Level Dollar	Open Level Percentage
Remaining Amortization Period	20	15
Asset Valuation Method	Five-Year Smoothed Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Projected Salary Increases	2.50%	4.00%

Note: Effective July 1, 2012, an amendment was made to the DTC Pension Plan which states that any eligible employee who participates in the Plan shall make after-tax contributions in the amount equal to 3% of their eligible compensation in excess of \$6,000.

\* Actuarially determined

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

DTC's annual pension cost and net pension obligation to the DTC Pension Plan and Contributory Pension Plans were as follows:

	<b>Total Pension Plan 06/30/14</b>	<b>DTC Pension Plan 06/30/14</b>	<b>Contributory Pension Plan 12/31/2013</b>
For the year ended:			
Annual Required Contribution (ARC)	\$ 1,929,275	\$ 1,156,145	\$ 773,130
Interest on Net Pension Obligation (NPO)	(239,466)	-	(239,466)
Actuarial adjustment	320,253	-	320,253
Annual Pension Cost (APC)	\$ 2,010,062	\$ 1,156,145	853,917
Less: actual contributions	(2,405,956)	(1,156,072)	(1,249,884)
Decrease in NPO	\$ (395,894)	\$ 73	(395,967)
Net pension obligation (asset),			
Beginning of the year	(3,312,091)	108,847	(3,420,938)
End of the year	\$ (3,707,985)	\$ 108,920	\$ (3,816,905)
	<b>Total</b>	<b>6/30/2013</b>	<b>12/31/2012</b>
For the year ended:	1,677,203	962,682	714,521
Annual Required Contribution (ARC)	301,113	-	292,950
Interest on Net Pension Obligation (NPO)	(227,213)	-	(219,050)
Actuarial adjustment	1,751,103	962,682	788,421
Annual Pension Cost (APC)	\$ (2,043,321)	\$ (963,253)	\$ (1,080,068)
Less: actual contributions	(292,218)	(571)	\$ (291,647)
Increase (decrease) in NPO	(3,019,873)	109,418	(3,129,291)
Net pension obligation (asset),			
liability end of the year	\$ (3,312,091)	\$ 108,847	\$ (3,420,938)

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

For each of the plans, the following table shows DTC's contributions made, the annual pension cost, the percentage of the annual pension cost contributed to the plan, and the net pension plan asset (obligation):

<b>Three-Year Trend Information</b>						
	<b>Plan Year Ended</b>	<b>Contribution Made</b>	<b>Annual Pension Cost (APC)</b>	<b>Percent Of APC Contributed</b>	<b>Net Pension Asset (Liability)</b>	
DTC Pension Plan	6/30/2014	\$ 1,156,072	\$ 1,156,145	99.99%	\$ (108,847)	
	6/30/2013	963,253	962,682	100.06%	(108,847)	
	6/30/2012	996,777	996,827	99.99%	(109,418)	
Contributory Pension Plan	12/31/2013	\$ 1,249,884	\$ 853,917	146.37%	\$ 3,816,905	
	12/31/2012	1,080,068	788,421	136.99%	3,420,938	
	12/31/2011	1,073,948	658,363	163.12%	3,129,291	

The following is the funded status information for each plan as of the most recent actuarial valuation date:

<b>Schedules of Funding Progress</b>							
	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Deficit as a % of Covered Payroll ((a-b)/c)</u>
DTC Pension Plan	07/01/13	\$ 17,714,631	\$ 20,057,791	\$ (2,343,160)	88.8%	\$ 11,308,455	(20.7)%
Contributory Pension Plan	01/01/14	37,520,422	37,483,272	(37,150)	100.0%	25,747,945	(.1)%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present 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.

### (8) Operating Leases

DTC has several noncancelable 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 \$29,205 and \$28,284 for the years ended June 30, 2014 and 2013, respectively.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2014 are as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2015	\$ 1,800
2016	1,800
2017	1,800
2018	1,800
2019	1,800
2020	<u>1,800</u>
Total	<u>\$ 10,800</u>

DTC had an operating lease agreement for transit vehicle tires that expired on May 19, 2009. DTC is continuing to operate under the old contract as a new one has not been negotiated yet. 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 years ended June 30, 2014 and 2013, DTC incurred expenses related to this lease of \$379,063 and \$344,942, respectively.

#### **(9) Economic Dependency**

DTC's revenue from operating subsidies from State entities was approximately 62.0% and 71.0% of total revenue for the years ended June 30, 2014 and 2013, respectively.

#### **(10) 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.

#### **(11) 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.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

For years prior to 2003, DTC would establish a workers' compensation loss reserve based upon the 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 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 Liberty Mutual. DTC paid a premium calculated \$8.14 per \$100 of payroll for the year ended June 30, 2013. For fiscal year 2014, premium was calculated at 10.19% of the driver payroll and .35% of the administration payroll. 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.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

For 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 years subsequent to 2003, 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 amount coverage 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 which currently is \$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:

	<b>Initial Loss Reserve Insurance Liability Established</b>	<b>Loss Under Self Insured Retention Program (Per occurrence)</b>	<b>Excess Commercial Coverage (Aggregate)</b>
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 insurance.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2014 and 2013

The components of the remaining insurance loss reserve were as follows at June 30,

<b>Auto Loss Reserve Remaining for Fiscal Year</b>	<b>2014</b>	<b>2013</b>
2014	\$ 3,764,000	\$ -
2013	4,804,000	3,437,000
2012	2,391,000	3,276,000
2011	332,000	1,605,000
2010	675,000	1,342,000
2009	-	47,000
2008	41,000	104,000
2007	-	32,000
2000	4,000	-
1999	-	4,000
	\$ 12,011,000	\$ 9,847,000

Changes in the balances of total claim liabilities during the fiscal years 2014 and 2013 were as follows:

Fiscal Year	<b>Beginning Balance July 1</b>	<b>Current Year Estimated Claims and Changes in</b>	<b>Actual Claims Payments</b>	<b>Ending Balance June 30</b>
2014	\$ 9,847,000	\$ 4,550,086	\$ (2,386,086)	\$ 12,011,000
2013	9,009,000	4,686,013	(3,848,013)	9,847,000

**(12) Transfers**

The following amounts were transferred from DelDOT and related entities to DTC for the fiscal years ended June 30:

	<b>2014</b>	<b>2013</b>
Amounts transferred as operating assistance	\$ 83,878,200	\$ 83,003,807
Amounts transferred as pass-through grant revenues	1,567,737	1,918,660
Amounts transferred as capital funding for purchase of capital assets	5,892,019	3,627,765
Total Transfers from DelDOT	\$ 91,337,956	\$ 88,550,232

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2014 and 2013

**(13) Other Post-Employment Benefits (OPEB)**

*Plan Description*

In June 2010, the Delaware Transit Corporation OPEB Fund Trust (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 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 employees who retire 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, 2014:

Retirees and Beneficiaries Receiving Benefits	193
Terminated Plan Members Entitled to But Not Yet Receiving the Benefits	55
Active Eligible Plan Members	<u>810</u>
Total	<u><u>1,058</u></u>

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:

Age 65 with five years of service or after attaining 25 years of service

Noncontract employees:

Age 55 with 10 years of service or age 62 with five years of service

Benefits:

During the fiscal year ended June 30, 2014, DTC provided health insurance options through several providers.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

#### Spouse and Survivor Coverage:

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

#### *Funding Policy*

DTC funds the OPEB Trust on a pay-as-you-go basis with additional funding provided in the OPEB Trust 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, which acts as the Trustee for the OPEB Trust and is responsible for the financial management of the OPEB Trust. The cash basis costs associated with these benefits was \$1,287,600 and \$1,193,708 for the years ended June 30, 2014 and 2013, respectively.

#### *Contributions*

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium. Life insurance is provided to retirees. Retirees under age 70 receive \$6,000 in coverage. Once the participant reaches age 70, the coverage drops to \$5,000. DTC must pay \$0.23 per month per \$1,000 of coverage for each employee.

#### *Annual OPEB Cost and Net Obligation*

DTC's annual OPEB cost is calculated based upon the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities 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 obligations. The following table shows the components of DTC's annual OPEB cost for fiscal year 2014 and the preceding year, the amount actually contributed to the plan, and DTC's net OPEB obligation:

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

Net OPEB obligation at June 30, 2012	\$ 61,020,848
Annual Required Contribution (ARC)	16,072,000
Interest on Net OPEB obligation	2,434,000
Adjustment to Annual Required Contribution	<u>(2,835,000)</u>
Net OPEB obligation before Contributions	76,691,848
Contributions Made	<u>(1,193,708)</u>
 Net OPEB obligations at June 30, 2013	 <u><u>\$ 75,498,140</u></u>
 Net OPEB obligation at June 30, 2013	 \$ 75,498,140
Annual Required Contribution (ARC)	17,371,000
Interest on Net OPEB obligations	2,992,000
Adjustment to Annual Required Contribution	<u>(3,615,000)</u>
Net OPEB obligation before Contributions	92,246,140
Contributions Made	<u>(1,287,600)</u>
 Net OPEB obligations at June 30, 2014	 <u><u>\$ 90,958,540</u></u>

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

<b>Fiscal Year</b>			
<b>Ended</b>	<b>Cost</b>	<b>Contributed</b>	<b>Obligation</b>
2014	\$ 16,748,000	7.69%	\$ 90,958,540
2013	15,671,000	7.62%	75,498,140
2012	17,074,000	6.84%	61,020,848

### ***Funded Status and Funding Progress***

As of July 1, 2013, the most recent actuarial valuation date, the plan was 1.4% funded. The actuarial accrued liability was \$135,237,000, and the actuarial value of assets was \$1,878,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$133,359,000. The covered payroll (annual payroll of active employees covered by the plan) was \$38,546,221, and the ratio of the UAAL to the covered payroll was 345.97%.

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 ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements,

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2014 and 2013

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.

#### *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 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, 2013 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.0% investment rate of return, 3.0% payroll growth rate, a 2.5% inflation rate, and a healthcare cost trend rate of 8.0% reduced by decrements to 5.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 4.2% after 2098. The unfunded liability is being amortized as a level percentage of payroll over a 30-year closed amortization period.

#### **(14) Deficit on Unrestricted Net Position**

DTC has a deficit on unrestricted net position of \$79,239,330 and \$60,708,278 as of June 30, 2014 and 2013, respectively. The deficit was initially caused by the implementation of GASB 45, which continues to require 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 13.

**REQUIRED SUPPLEMENTARY INFORMATION**

**DELAWARE TRANSIT CORPORATION**

Required Supplementary Information

June 30, 2014 and 2013

**Required Supplementary Information - Pensions**

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

The amount shown below as actuarial accrued liability is a measure of the difference between the actuarial present value of the future plan benefits and the actuarial present value of future normal cost:

	<u>Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Liability (AAL) (b)</u>	<u>Over AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>of Covered Payroll ((a-b)/c)</u>
DTC pension plan	07/1/2011	\$ 15,121,491	\$ 16,236,313	\$ (1,114,822)	93.13%	\$ 11,253,210	(9.91)%
	07/1/2012	15,941,868	16,990,051	(1,048,183)	93.83%	11,041,527	(9.49)%
	07/1/2013	17,714,631	20,057,791	(2,343,160)	88.83%	11,308,455	(20.7)%
Contributory pension plan	01/1/2012	\$ 30,863,722	\$ 32,171,013	\$ (1,307,291)	95.94%	\$ 22,985,063	(5.69) %
	01/1/2013	32,243,870	34,423,975	(2,180,105)	93.67%	24,788,597	(8.79) %
	01/1/2014	37,520,422	37,483,272	(37,105)	100.00%	25,747,945	(.14) %

**Required Supplementary Information - OPEB Trust**

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

**Schedule of Funding Progress**

	<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a-b)/c)</u>
OPEB Trust	07/1/2011	\$ 1,605,000	\$ 125,866,000	\$ (124,261,000)	1.28%	\$ 31,883,191	(389.74)%
	07/1/2012	1,755,283	121,627,000	(119,871,817)	1.44%	34,537,878	(347.07)%
	07/1/2013	1,878,000	135,237,000	(133,359,000)	1.39%	38,546,221	(345.97)%

## **ADDITIONAL INFORMATION**

**DELAWARE TRANSIT CORPORATION**

Schedule of Revenues and Expenses Compared to Budget

Year Ended June 30, 2014

	<b>Budget (Unaudited)</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
<b>Operating Revenues</b>			
Passenger fares	\$ 15,320,016	\$ 16,332,281	\$ 1,012,265
Advertising	500,000	622,709	122,709
Miscellaneous	900,000	1,060,340	160,340
Auxiliary transportation	606,000	650,476	44,476
<b>Total operating revenues</b>	17,326,016	18,665,806	1,339,790
<b>Operating Expenses Before Depreciation</b>	107,564,664	126,034,357	(18,469,693)
Operating expenses in excess of operating revenues	(90,238,648)	(107,368,551)	(17,129,903)
<b>Nonoperating revenues (expenses)</b>			
Federal operating assistance	6,260,448	5,901,601	(358,847)
Pass-through grant revenue	-	4,074,199	4,074,199
Pass-through grant expense	-	(5,973,876)	(5,973,876)
Investment income	100,000	24,083	(75,917)
Excess of nonoperating revenues over expenses	6,360,448	4,026,007	(2,334,441)
Transfers from DelDOT for operating purposes			
State operating assistance	83,878,200	83,878,200	-
State pass-through grant revenue	-	1,567,737	(1,567,737)
Total transfers for operating purposes	83,878,200	85,445,937	(1,567,737)
Income before contributions and depreciation, net of gains on retirements on property and equipment	\$ -	\$ (17,896,607)	\$ (21,032,081)

## DELAWARE TRANSIT CORPORATION

### Schedule of Expenses by Mode - All Modes

For the Year Ended June 30, 2014

	Vehicle Operations (10)	Vehicle Maintenance (41)	Non-Vehicle Maintenance (42)	General Administration (160)	Totals
<b>LABOR</b>					
Operator salaries	\$ 23,802,811	\$ -	\$ -	\$ -	\$ 23,802,811
Other salaries	3,406,882	5,095,919	414,678	6,101,600	15,019,079
	<u>27,209,693</u>	<u>5,095,919</u>	<u>414,678</u>	<u>6,101,600</u>	<u>38,821,890</u>
<b>FRINGE BENEFITS</b>	27,805,917	5,042,033	496,669	7,753,727	41,098,346
<b>SERVICES</b>					
Professional and technical	10,408	-	2,041	2,491,218	2,503,667
Contract and maintenance	-	1,170,516	2,907,758	-	4,078,274
Security	-	-	19,429	566,588	586,017
Other	-	8,978	132,620	374,721	516,319
	<u>10,408</u>	<u>1,179,494</u>	<u>3,061,848</u>	<u>3,432,527</u>	<u>7,684,277</u>
<b>MATERIALS AND SUPPLIES</b>					
Fuel and lubes	10,031,515	140,453	-	-	10,171,968
Tires and tubes	558,768	10,292	-	-	569,060
Other materials	95,900	3,833,796	178,098	296,507	4,404,301
	<u>10,686,183</u>	<u>3,984,541</u>	<u>178,098</u>	<u>296,507</u>	<u>15,145,329</u>
<b>UTILITIES</b>	-	-	-	1,082,522	1,082,522
<b>INSURANCE</b>	-	-	-	7,101,794	7,101,794
<b>PURCHASED TRANSPORTATION</b>	13,170,214	-	-	-	13,170,214
<b>MISCELLANEOUS EXPENSES</b>					
Dues and subscriptions	-	-	-	66,394	66,394
Travel and meetings	-	-	-	1,319,693	1,319,693
Advertising	-	-	-	326,967	326,967
Facilities	-	-	67,962	-	67,962
Other	-	-	-	148,969	148,969
	<u>-</u>	<u>-</u>	<u>67,962</u>	<u>1,862,023</u>	<u>1,929,985</u>
<b>TOTAL EXPENSES</b>	<u>\$ 78,882,415</u>	<u>\$ 15,301,987</u>	<u>\$ 4,219,255</u>	<u>\$ 27,630,700</u>	<u>\$ 126,034,357</u>

## DELAWARE TRANSIT CORPORATION

### Schedule of Expenses by Mode - Fixed Route Directly Operated

For the Year Ended June 30, 2014

	Vehicle Operations (10)	Vehicle Maintenance (41)	Non-Vehicle Maintenance (42)	General Administration (160)	Totals
<b>LABOR</b>					
Operator salaries	\$ 11,599,860	\$ -	\$ -	\$ -	\$ 11,599,860
Other salaries	1,103,157	3,818,080	154,384	2,222,595	7,298,216
	<u>12,703,017</u>	<u>3,818,080</u>	<u>154,384</u>	<u>2,222,595</u>	<u>18,898,076</u>
<b>FRINGE BENEFITS</b>	10,752,689	3,332,661	135,440	2,132,390	16,353,180
<b>SERVICES</b>					
Professional and technical	2,207	-	754	912,435	915,396
Contract and maintenance	-	506,894	1,082,558	-	1,589,452
Security	-	-	7,181	209,411	216,592
Other	-	6,780	49,017	147,824	203,621
	<u>2,207</u>	<u>513,674</u>	<u>1,139,510</u>	<u>1,269,670</u>	<u>2,925,061</u>
<b>MATERIALS AND SUPPLIES</b>					
Fuel and lubes	5,674,944	53,243	-	-	5,728,187
Tires and tubes	347,091	3,832	-	-	350,923
Other materials	40,328	3,157,150	65,825	114,534	3,377,837
	<u>6,062,363</u>	<u>3,214,225</u>	<u>65,825</u>	<u>114,534</u>	<u>9,456,947</u>
<b>UTILITIES</b>	-	-	-	400,100	400,100
<b>INSURANCE</b>	-	-	-	2,643,998	2,643,998
<b>PURCHASED TRANSPORTATIO</b>	-	-	-	-	-
<b>MISCELLANEOUS EXPENSES</b>					
Dues and subscriptions	-	-	-	24,539	24,539
Travel and meetings	-	-	-	487,759	487,759
Advertising	-	-	-	285,455	285,455
Facilities	-	-	25,119	-	25,119
Other	-	-	-	55,619	55,619
	<u>-</u>	<u>-</u>	<u>25,119</u>	<u>853,372</u>	<u>878,491</u>
<b>TOTAL EXPENSES</b>	<u>\$ 29,520,276</u>	<u>\$ 10,878,640</u>	<u>\$ 1,520,278</u>	<u>\$ 9,636,659</u>	<u>\$ 51,555,853</u>

## DELAWARE TRANSIT CORPORATION

### Schedule of Expenses by Mode - Paratransit Directly Operated

For the Year Ended June 30, 2014

	Vehicle Operations (10)	Vehicle Maintenance (41)	Non-Vehicle Maintenance (42)	General Administration (160)	Totals
<b>LABOR</b>					
Operator salaries	\$ 12,202,951	\$ -	\$ -	\$ -	\$ 12,202,951
Other salaries	2,170,621	1,197,539	232,096	3,464,389	7,064,645
	<u>14,373,572</u>	<u>1,197,539</u>	<u>232,096</u>	<u>3,464,389</u>	<u>19,267,596</u>
<b>FRINGE BENEFITS</b>	16,673,334	1,473,497	279,184	4,451,737	22,877,752
<b>SERVICES</b>					
Professional and technical	3,441	-	1,176	1,422,225	1,426,842
Contract and maintenance	-	421,975	1,627,472	-	2,049,447
Security	-	-	11,193	326,411	337,604
Other	-	2,198	76,402	205,827	284,427
	<u>3,441</u>	<u>424,173</u>	<u>1,716,243</u>	<u>1,954,463</u>	<u>4,098,320</u>
<b>MATERIALS AND SUPPLIES</b>					
Fuel and lubes	4,344,432	80,048	-	-	4,424,480
Tires and tubes	178,722	5,760	-	-	184,482
Other materials	50,203	551,323	102,602	165,490	869,618
	<u>4,573,357</u>	<u>637,131</u>	<u>102,602</u>	<u>165,490</u>	<u>5,478,580</u>
<b>UTILITIES</b>	-	-	-	623,641	623,641
<b>INSURANCE</b>	-	-	-	3,974,874	3,974,874
<b>PURCHASED TRANSPORTATION</b>	-	-	-	-	-
<b>MISCELLANEOUS EXPENSES</b>					
Dues and subscriptions	-	-	-	38,250	38,250
Travel and meetings	-	-	-	760,275	760,275
Advertising	-	-	-	11,012	11,012
Facilities	-	-	39,153	-	39,153
Other	-	-	-	86,698	86,698
	<u>-</u>	<u>-</u>	<u>39,153</u>	<u>896,235</u>	<u>935,388</u>
<b>TOTAL EXPENSES</b>	<u>\$ 35,623,704</u>	<u>\$ 3,732,340</u>	<u>\$ 2,369,278</u>	<u>\$ 15,530,829</u>	<u>\$ 57,256,151</u>

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode - Fixed Route Purchased Transportation

For the Year Ended June 30, 2014

	Vehicle Operations (10)	Vehicle Maintenance (41)	Non-Vehicle Maintenance (42)	General Administration (160)	Totals
<b>LABOR</b>					
Operator salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Other salaries	75,164	59,502	20,941	281,146	436,753
	<u>75,164</u>	<u>59,502</u>	<u>20,941</u>	<u>281,146</u>	<u>436,753</u>
<b>FRINGE BENEFITS</b>	226,292	180,280	62,859	865,073	1,334,504
<b>SERVICES</b>					
Professional and technical	4,760	-	80	107,836	112,676
Contract and maintenance	-	236,748	146,842	-	383,590
Security	-	-	760	22,154	22,914
Other	-	-	5,185	15,639	20,824
	<u>4,760</u>	<u>236,748</u>	<u>152,867</u>	<u>145,629</u>	<u>540,004</u>
<b>MATERIALS AND SUPPLIES</b>					
Fuel and lubes	11,022	5,319	-	-	16,341
Tires and tubes	29,592	520	-	-	30,112
Other materials	3,524	118,273	6,964	12,117	140,878
	<u>44,138</u>	<u>124,112</u>	<u>6,964</u>	<u>12,117</u>	<u>187,331</u>
<b>UTILITIES</b>	-	-	-	42,327	42,327
<b>INSURANCE</b>	-	-	-	358,641	358,641
<b>PURCHASED TRANSPORTATIO</b>	1,963,900	-	-	-	1,963,900
<b>MISCELLANEOUS EXPENSES</b>					
Dues and subscriptions	-	-	-	2,596	2,596
Travel and meetings	-	-	-	51,600	51,600
Advertising	-	-	-	30,209	30,209
Facilities	-	-	2,657	-	2,657
Other	-	-	-	4,790	4,790
	<u>-</u>	<u>-</u>	<u>2,657</u>	<u>89,195</u>	<u>91,852</u>
<b>TOTAL EXPENSES</b>	<u>\$ 2,314,254</u>	<u>\$ 600,642</u>	<u>\$ 246,288</u>	<u>\$ 1,794,128</u>	<u>\$ 4,955,312</u>

## DELAWARE TRANSIT CORPORATION

### Schedule of Expenses by Mode - Paratransit Purchased Transportation

For the Year Ended June 30, 2014

	Vehicle Operations (10)	Vehicle Maintenance (41)	Non-Vehicle Maintenance (42)	General Administration (160)	Totals
<b>LABOR</b>					
Operator salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Other salaries	57,940	20,798	7,257	109,304	195,299
	<u>57,940</u>	<u>20,798</u>	<u>7,257</u>	<u>109,304</u>	<u>195,299</u>
<b>FRINGE BENEFITS</b>	153,602	55,595	19,186	297,198	525,581
<b>SERVICES</b>					
Professional and technical	-	-	31	41,923	41,954
Contract and maintenance	-	4,899	50,886	-	55,785
Security	-	-	295	8,612	8,907
Other	-	-	2,016	5,431	7,447
	<u>-</u>	<u>4,899</u>	<u>53,228</u>	<u>55,966</u>	<u>114,093</u>
<b>MATERIALS AND SUPPLIES</b>					
Fuel and lubes	1,117	1,843	-	-	2,960
Tires and tubes	3,363	180	-	-	3,543
Other materials	1,845	7,050	2,707	4,366	15,968
	<u>6,325</u>	<u>9,073</u>	<u>2,707</u>	<u>4,366</u>	<u>22,471</u>
<b>UTILITIES</b>	-	-	-	16,454	16,454
<b>INSURANCE</b>	-	-	-	124,281	124,281
<b>PURCHASED TRANSPORTATION</b>	1,123,195	-	-	-	1,123,195
<b>MISCELLANEOUS EXPENSES</b>					
Dues and subscriptions	-	-	-	1,009	1,009
Travel and meetings	-	-	-	20,059	20,059
Advertising	-	-	-	291	291
Facilities	-	-	1,033	-	1,033
Other	-	-	-	1,862	1,862
	<u>-</u>	<u>-</u>	<u>1,033</u>	<u>23,221</u>	<u>24,254</u>
<b>TOTAL EXPENSES</b>	<u>\$ 1,341,062</u>	<u>\$ 90,365</u>	<u>\$ 83,411</u>	<u>\$ 630,790</u>	<u>\$ 2,145,628</u>

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode - Rail

For the Year Ended June 30, 2014

	<u>Vehicle Operations (10)</u>	<u>Vehicle Maintenance (41)</u>	<u>Non-Vehicle Maintenance (42)</u>	<u>General Administration (160)</u>	<u>Totals</u>
<b>LABOR</b>					
Operator salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Other salaries	-	-	-	24,166	24,166
	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,166</u>	<u>24,166</u>
<b>FRINGE BENEFITS</b>	-	-	-	7,329	7,329
<b>SERVICES</b>					
Professional and technical	-	-	-	6,799	6,799
Contract and maintenance	-	-	-	-	-
Security	-	-	-	-	-
Other	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,799</u>	<u>6,799</u>
<b>MATERIALS AND SUPPLIES</b>					
Fuel and lubes	-	-	-	-	-
Tires and tubes	-	-	-	-	-
Other materials	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>UTILITIES</b>	-	-	-	-	-
<b>INSURANCE</b>	-	-	-	-	-
<b>PURCHASED TRANSPORTATION</b>	10,083,119	-	-	-	10,083,119
<b>MISCELLANEOUS EXPENSES</b>					
Dues and subscriptions	-	-	-	-	-
Travel and meetings	-	-	-	-	-
Advertising	-	-	-	-	-
Facilities	-	-	-	-	-
Other	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 10,083,119</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 38,294</u></u>	<u><u>\$ 10,121,413</u></u>



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## **Independent Auditors' Report on Internal Control Over Financial Reporting 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 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 the Delaware Transit Corporation (DTC), a discretely presented component unit of Delaware Transportation Authority, which is a component unit of the State of Delaware, as of and for the years ended June 30, 2014, and have issued the report thereon dated November 5, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered DTC's internal control over financial reporting (internal control) to determine the audit procedures that are 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 the DTC's internal control. Accordingly, we do not express an opinion on the effectiveness of the DTC's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the DTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

**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 result of that testing, and not to provide an opinion on the effectiveness of the 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 the DTC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Philadelphia, PA  
November 5, 2014