STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

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KPMG LLP
1601 Market Street
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Independent Auditors' Report

Delaware Department of Transportation
Dover, Delaware:

We have audited the accompanying financial statements of the State of Delaware Department of Transportation (Department of Transportation), which is an Enterprise Fund of the State of Delaware, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Department of Transportation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Transportation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the Department of Transportation enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the State of Delaware Department of Transportation, as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012 on our consideration of the Department of Transportation'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis, required supplementary information for infrastructure assets, and required supplementary information for pensions and other post-employment benefits on pages 3 through 7, 47 through 48, and page 48, respectively, 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.

Our audits were conducted for the purpose of forming an opinion on the Department of Transportation's basic financial statements as a whole. The supplemental information included in the schedule of revenue bond coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of revenue bond coverage has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

November 2, 2012

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal years ended June 30, 2012 and 2011.

Background

The mission of the Department is to provide a safe, efficient, and environmentally sensitive transportation network that offers a variety of convenient, cost-effective mobility opportunities for the movement of people and goods. The Department is responsible for the construction and maintenance of the State of Delaware's (the State) roadways, bridges, and public transportation systems, and for the coordination and development of the State's comprehensive, balanced transportation planning and policies.

Financial Highlights

- The Department issued $222,870,000 of Senior Revenue Refunding Bonds, 2012 Series, to reduce future debt service payments. The transaction decreased total indebtedness by $27,825,000 and reduced future debt-service payments by $31,811,076.
- Operating revenues increased by $4.3 million to $449.3 million during the fiscal year ended June 30, 2012, primarily from increased motor vehicle related revenues as a result of increased auto sales and increased toll revenues.
- Operating expenses increased by $52.7 million to $599.8 million during the fiscal year ended June 30, 2012, primarily as a result of increased capital preservation spending.
- Total capital assets (net of depreciation) increased $91.3 million to $4,034.9 million during fiscal 2012 as a result of the US-301 and SR-1 projects.

Overview of the Financial Statements

The Department is an agency of the State, and operates as an enterprise fund. Included within the Department is the Delaware Transportation Authority (the Authority), which is a blended component unit of the State. The Authority is made up of two blended component units, the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC); these entities assist the Department in carrying out its mission.

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) notes to the financial statements, (4) required supplementary information, and (5) additional information.

The financial statements provide both long - and short-term information about the Department'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 additional information that further explains and supports the information in the financial statements.

The Department'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 fund net assets. All assets and liabilities associated with the operation of the Department are included in the balance sheets.

Financial Analysis of the Department

Balance Sheets

The Department's total assets were $4,507.4 million at June 30, 2012, compared to $4,509.9 million at June 30, 2011, and $4,373.2 million at June 30, 2010. Total liabilities were $1,418.3 million at June 30, 2012, compared to $1,468.5 million at June 30, 2011, and $1,403.5 million at June 30, 2010. Net assets at June 30, 2012 were $3,089.1 million, compared to $3,041.4 million at June 30, 2011, and $2,969.7 million at June 30, 2010.

Department of Transportation's Net Assets

		2012	2011	2010	Change 2012 – 2011	Change 2011 – 2010
				(In millions of dollars)		
Current assets	$	378.2	485.9	409.6	(107.7)	76.3
Capital assets		4,034.9	3,943.6	3,899.5	91.3	44.1
Other noncurrent assets		94.3	80.4	64.1	13.9	16.3
Total assets	$	4,507.4	4,509.9	4,373.2	(2.5)	136.7
Current liabilities	$	188.0	174.4	166.4	13.6	8.0
Noncurrent liabilities		1,230.3	1,294.1	1,237.1	(63.8)	57.0
Total liabilities	$	1,418.3	1,468.5	1,403.5	(50.2)	65.0
Net assets:						
Invested in capital assets, net of debt	$	2,956.3	2,840.6	2,803.6	115.7	37.0
Restricted		169.9	173.4	162.0	(3.5)	11.4
Unrestricted		(37.1)	27.4	4.1	(64.5)	23.3
Total net assets	$	3,089.1	3,041.4	2,969.7	47.7	71.7

The decrease in current assets in 2012 is attributed to the smaller cash and cash equivalent and investment balances, which declined as the Department expended the carry-over bond proceeds from FY2011. Also, no bond proceeds were added, as new debt issued during the fiscal year was solely for the purpose of refunding existing debt. The increase in 2011 was attributed to larger cash and cash equivalent and investment balances as a result of delays in the capital program decreasing capital spending during the fiscal year. The increase in capital assets for 2012 is primarily due to the US 301 project and the Turnpike/SR-1 interchange project, while in 2011 the increase was primarily for the US 301 project. The decrease in total liabilities for fiscal year 2012 is primarily due to the bond refunding and from not issuing additional debt during the year. The increase in total liabilities for 2011 was primarily due to an increase in revenue bonds payable and post-employment benefits payable.

Net assets invested in capital assets, net of debt, increased primarily as a result of capital spending for the U.S. 301 project and the Turnpike/SR-1 interchange project in excess of new debt issuances. Unrestricted net assets decreased due to the decision to draw down existing cash balances instead of issuing new debt during the year.

Change in Net Assets

The Department's net assets at June 30, 2012 were $3,089.1 million, compared to $3,041.4 million at June 30, 2011, and $2,969.7 million at June 30, 2010. Operating revenues were $449.3 million, $445.0 million, and $426.9 million in fiscal years 2012, 2011, and 2010, respectively. Total operating expenses were $599.8 million, $547.1 million, and $582.0 million in fiscal years 2012, 2011, and 2010, respectively.

Changes in the Department of Transportation's Net Assets

	2012	2011	2010	Change 2012 – 2011	Change 2011 – 2010
			(In millions of dollars)		
Operating revenues	$ 449.3	445.0	426.9	4.3	18.1
Operating expenses:					
Operating expenses	576.8	522.6	559.0	54.2	(36.4)
Depreciation	23.0	24.5	23.0	(1.5)	1.5
Total operating expenses	599.8	547.1	582.0	52.7	(34.9)
Operating income	(150.5)	(102.1)	(155.1)	(48.4)	53.0
Nonoperating revenues, net	161.5	151.8	176.6	9.7	(24.8)
Income (loss) before transfers	11.0	49.7	21.5	(38.7)	28.2
Transfers, net	36.7	22.0	(1.3)	14.7	23.3
Change in fund net assets	47.7	71.7	20.2	(24.0)	51.5
Total net assets – beginning of year	3,041.4	2,969.7	2,949.5	71.7	20.2
Total net assets – end of year	$ 3,089.1	3,041.4	2,969.7	47.7	71.7

The increase in operating revenues from 2010 to 2011 is primarily attributed to an increase in motor vehicle and related revenues as a result of increased auto sales.

The increase in total operating expenses from 2011 to 2012 is primarily a result of increased capital preservation spending during the year, as well as increased professional fees. The decrease in total operating expenses from 2010 to 2011 was primarily a result of delayed capital spending during the year.

Nonoperating revenues increased for fiscal year 2012 as a result of increased federal grant revenues and reduced interest expense. Nonoperating revenues decreased for fiscal year 2011, primarily as a result of the receipt of additional federal grants in fiscal year 2010 under the American Recovery and Reinvestment Act, which were not available in 2011.

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Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the Department had invested $4,202.9 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2012 totaled $4,034.9 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of $91.3 million over June 30, 2011. The most significant contributors to this increase were the Turnpike/SR-1 interchange project and the US 301 project. As of June 30, 2011, the Department had invested $4,095.3 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2011 totaled $3,943.6 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of $44.1 million over June 30, 2010. The most significant contributor to this increase was the US Route 301 toll road project.

The Department is using the "modified approach" for determining condition assessments on its roads and bridges. The modified approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure in fair or better condition and report at least every three years on their condition assessments.

It is the Department's policy to maintain at least 85% of its highway system at a fair or better condition rating and 75% of its bridge system (combined structural and deck ratings) at a good or better condition rating as follows:

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of the bridges structures is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 4 for substandard bridges to 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

The Department performs condition assessments of eligible infrastructure assets at least every three years.

Of the Department's 1,591 bridge structures that were rated in 2012, 72.3% received a good or better BCR rating, 20.2% were rated fair, and 7.5% received a substandard rating. Of the 7,174,339 square feet of bridge deck that was rated, 90.3% or 6,476,158 square feet received an OPC condition rating of good or better, 9.6% received a fair rating, and 0.1% received a substandard deck rating. In 2011, 4,378 centerline miles were rated; 95.8% received a fair or better OPC rating and 4.2% received a poor rating. No roadway condition assessment was performed for 2012.

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The estimate to maintain and preserve the Department's infrastructure was $341.0 million, $426.6 million, and $282.0 million for 2012, 2011, and 2010, respectively. The actual expenditures were $294.5 million, $250.5 million and $333.3 million for 2012, 2011, and 2010, respectively. Significant variances between estimated and actual maintenance and preservation costs are due to the methodology used to develop these numbers. The estimated costs represent annual Bond Bill authorizations and federal spending appropriations, the actual spending of which may occur over several years, whereas the actual amounts relate to spending in a single year, regardless of when the spending was authorized or appropriated.

Debt Administration

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Delaware Transportation Authority (the Authority) to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2012, the Authority had $1,106.7 million in revenue bonds outstanding, an 8.6% decrease from June 30, 2011. On June 30, 2012 and 2011, the Authority had a total of $235.6 million in authorized but unissued revenue bonds. On April 11, 2012, the Trust Funds issued $222.9 million of Transportation System Senior Revenue Bonds, 2012 Series, that along with bond premium of $42.3 million were used to provide for an advance refunding of $250.7 million prior Transportation System Senior Revenue Bonds. The refunding was to reduce the total future debt service payments. The transaction resulted in an economic gain of $27.1 million and a reduction of $31.8 million in future debt service payments. Of the twelve outstanding Senior Bond Issues, all bonds are rated AA+ and Aa2 by Standard and Poor's and Moody's Investors Services, respectively. The GARVEE Bond, 2010 Series is rated AA and Aa2 by Standard and Poor's and Moody's Investors Services, respectively. At June 30, 2011, the Authority had $1,210.9 million in revenue bonds outstanding, a 2.3% increase from June 30, 2010. During 2011, the Authority issued senior revenue bonds for $47.7 million and senior revenue Build America Bonds (BAB) for $72.1 million. The $47.7 million issuance provided for the advanced refunding of $20.6 million in existing bonds and $27.1 million in new money.

The Department's investment portfolio is actively managed by Wilmington Trust Company, and primarily consists of U.S. government securities, U.S. government agency securities, and high-grade commercial paper. The majority of these investments have maturities of less than one year. The Department's bond ratings have allowed continued access to the municipal bond market at favorable interest rates during the current economic downturn.

Contacting the Department's Financial Management

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Balance Sheets

June 30, 2012 and 2011

	2012	2011
Current assets:		
Cash and cash equivalents:		
Unrestricted	$ 43,307,436	51,970,581
Restricted	9,196,563	66,197,592
Investments – at fair value:		
Unrestricted	94,649,196	127,815,239
Restricted	171,577,442	185,341,783
Accrued interest receivable	643,165	694,941
Accounts receivable:		
Trade	16,519,547	14,029,912
Federal grant	22,399,900	21,492,406
Inventory	18,528,054	17,099,608
Bond issuance costs – net of accumulated amortization	319,747	263,205
Escrow insurance deposits	316,960	275,967
Prepaid expenses	786,166	684,217
Total current assets	378,244,176	485,865,451
Noncurrent assets:		
Capital assets, not depreciable:		
Land	276,760,943	276,760,943
Infrastructure	3,564,346,941	3,481,074,684
Construction in progress	2,486,712	—
Capital assets, depreciable:		
Buildings and improvements	104,836,998	98,057,306
Fixtures and equipment	254,506,499	239,414,912
	4,202,938,093	4,095,307,845
Less: accumulated depreciation	168,084,848	151,675,900
Capital assets	4,034,853,245	3,943,631,945
Investments – at fair value:		
Unrestricted	25,809,386	12,749,614
Restricted	63,112,858	62,906,082
Bond issuance costs – net of accumulated amortization and current portion	2,373,959	2,182,781
Prepaid pension – restricted	3,019,873	2,604,418
Total noncurrent assets	4,129,169,321	4,024,074,840
Total assets	$ 4,507,413,497	4,509,940,291

(Continued)

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Balance Sheets

June 30, 2012 and 2011

		2012	2011
Current liabilities:			
Accounts payable and other accrued expenses	$	32,997,048	24,424,941
Due to State General Fund		4,525,925	—
Accrued payroll		6,556,922	11,217,706
Compensated absences payable		6,840,570	4,844,436
Customer toll deposits		12,335,843	10,788,734
Pollution remediation obligations		891,200	644,000
Escrow deposit		3,952,213	5,710,805
Insurance loss reserve		2,922,308	4,130,201
Deferred revenue		649,030	—
General obligation bonds payable		195,189	346,503
Revenue bonds payable – net of deferred amounts on refunding		80,537,770	75,960,451
Bond issue premium – net of accumulated amortization		12,872,769	7,952,314
Interest payable		22,727,471	28,400,631
Total current liabilities		188,004,258	174,420,722
Noncurrent liabilities:			
Compensated absences – net of current portion		9,992,431	9,506,762
Return of federal funds		2,999,719	5,999,719
Insurance loss reserve – net of current portion		6,086,692	2,944,799
Post-employment benefits payable		143,670,275	111,335,102
Pollution remediation obligations – net of current portion		4,447,700	1,113,150
General obligation bonds payable – net of current portion		246,292	441,481
Revenue bonds payable – net of deferred amounts on refunding and current portion		1,007,131,297	1,133,291,243
Bond issue premium – net of accumulated amortization and current portion		55,690,042	29,450,245
Total noncurrent liabilities		1,230,264,448	1,294,082,501
Total liabilities		1,418,268,706	1,468,503,223
Net assets:			
Invested in capital assets – net of related debt		2,956,316,018	2,840,594,479
Restricted		169,953,696	173,444,181
Unrestricted		(37,124,923)	27,398,408
Total net assets		3,089,144,791	3,041,437,068
Total liabilities and net assets	$	4,507,413,497	4,509,940,291

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Pledged revenue:		
Turnpike revenues	$ 117,132,849	115,895,081
Motor vehicle and related revenue	258,667,127	256,717,953
Total pledged revenue	375,799,976	372,613,034
Toll revenue – Delaware SR-1	44,889,227	44,429,312
Passenger fares	14,573,514	13,962,917
Miscellaneous	14,007,743	14,079,110
Total operating revenues	449,270,460	445,084,373
Operating expenses:		
Maintenance, preservation, and repairs	183,670,800	149,807,593
Occupancy expenses	8,370,850	7,437,594
Office expense	8,781,419	9,847,473
Payroll expense	152,156,787	151,375,258
Professional fees	124,660,621	110,364,586
Supplies and other	20,674,759	20,260,000
Vehicle operations	78,437,682	73,547,139
Depreciation	23,025,545	24,523,551
Total operating expenses	599,778,463	547,163,194
Operating loss	(150,508,003)	(102,078,821)
Nonoperating revenues (expenses):		
Pledged revenue – income from investments	3,159,782	3,573,314
Income from investments	62,028	62,029
Net increase (decrease) in the fair value of investments	807,018	(973,326)
Bad debt recovery	820,566	788,914
Federal grant revenue	200,669,926	195,532,209
Grant expenses	(2,276,838)	(1,291,189)
Gain on asset disposal	307,734	587,412
Interest expense	(42,070,709)	(46,469,920)
Excess of nonoperating revenues over nonoperating expenses	161,479,507	151,809,443
Income before transfers	10,971,504	49,730,622
Transfers to State General Fund	(5,000,000)	(4,000,000)
Transfers to other State agencies	(1,510,703)	(1,229,290)
Transfers from State General Fund	43,246,922	27,233,343
Change in fund net assets	47,707,723	71,734,675
Total fund net assets – beginning of year	3,041,437,068	2,969,702,393
Total fund net assets – end of year	$ 3,089,144,791	3,041,437,068

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Operating receipts	$ 445,180,889	437,178,579
Payments to suppliers	(407,817,538)	(360,332,435)
Payments to employees	(122,416,050)	(119,041,100)
Insurance claims paid	(2,906,689)	(4,027,340)
Other receipts	2,248,966	2,179,513
Net cash used in operating activities	(85,710,422)	(44,042,783)
Cash flows from noncapital financing activities:		
Proceeds from State General Fund	43,246,922	27,233,343
Transfers to State General Fund	(5,000,000)	(4,000,000)
Transfers to other State agencies	(1,510,703)	(1,229,290)
Net cash provided by noncapital financing activities	36,736,219	22,004,053
Cash flows from capital and related financing activities:		
Payments of revenue bond principal	(76,320,000)	(71,760,000)
Payment to escrow agent for refunding of revenue bonds	(270,163,203)	(21,057,176)
Proceeds from revenue bond sale	222,870,000	119,835,000
Payments of general obligation bond principal	(346,503)	(663,330)
Premium from revenue bond sale	42,290,886	6,988,431
Federal reimbursement of debt service	12,075,650	7,801,534
Proceeds from capital grants	185,409,944	180,174,164
Bond issuance costs from revenue bond sale	(525,984)	(362,312)
Acquisition of capital assets	(115,201,162)	(68,817,301)
Proceeds from sale of land and equipment	1,262,051	715,757
Payments of interest	(56,565,663)	(52,835,053)
Net cash provided by (used in) capital and related financing activities	(55,213,984)	100,019,714
Cash flows from investing activities:		
Purchase of investments	(3,253,406,589)	(4,126,922,516)
Proceeds from sale of investments	3,287,877,443	4,119,491,386
Collection on loans previously written off	820,566	788,914
Escrow insurance deposits	(40,993)	35,570
Interest received	3,273,586	3,427,974
Net cash provided by (used in) investing activities	38,524,013	(3,178,672)
Net increase (decrease) in cash and cash equivalents	(65,664,174)	74,802,312
Cash and cash equivalents – beginning of year	118,168,173	43,365,861
Cash and cash equivalents – end of year	$ 52,503,999	118,168,173

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of operating loss to net cash used in operating activities:			
Net operating loss	$	(150,508,003)	(102,078,821)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation		23,025,545	24,523,551
Changes in assets and liabilities:			
Increase in accounts receivable		(2,489,635)	(2,742,815)
Increase in inventory		(1,428,446)	(1,093,008)
Increase in prepaid expenses		(101,949)	(402,363)
Increase in prepaid pension		(415,455)	(546,112)
Increase (decrease) in accounts payable and other accrued expenses		8,572,107	(3,887,368)
Increase in due to State General Fund		4,525,925	—
Increase (decrease) in accrued payroll and related expenses		(2,178,981)	1,242,859
Increase (decrease) in deferred revenue		649,030	(2,983,466)
Increase (decrease) in other accrued expenses		(1,277,483)	13,324,399
Increase (decrease) in pollution remediation obligation		3,581,750	(1,037,050)
Increase in post-employment benefits		32,335,173	31,637,411
Net cash used in operating activities	$	(85,710,422)	(44,042,783)

See accompanying notes to financial statements.

(1) Organization

The Delaware Department of Transportation (the Department) is an agency of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. In addition, the Department has overall responsibility for maintenance and operation of roadways and bridges that fall under its jurisdiction. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC). The Authority is a blended component unit of the State and is included in these financial statements on a blended basis.

The Trust Fund was created by the State, within the Authority, under the Transportation Trust Fund Act of 1987 (the TTF Act). The underlying purpose of the TTF Act and the Trust Fund is to address the growing urgency to provide additional means to finance the maintenance and development of the integrated highway, air, and water transportation system in the State for the economic benefit of the State and for the welfare and safety of the users of the transportation system. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation-related fees, which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 Toll Roads, both of which the Authority owns and operates. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financing for these projects.

The TTF Act also granted the Authority the power to issue bonds payable from and secured by the revenues pledged and assigned to the Trust Fund.

The Trust Agreements in effect are the Motor Fuel Tax Revenue Bond Trust Agreement (the Motor Fuel Tax Agreement), dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement (the Trust Agreement), dated August 1, 1988, as supplemented.

The Trust Agreement is a bond indenture, intended to ensure payment to bondholders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department.

The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in fiscal year 1995 as a subsidiary public corporation of the Authority. DTC is authorized to operate the public transportation system within the State.

(Continued)

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Department operates as an enterprise fund. The Department'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.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

The Department maintains cash escrow accounts for administrative purposes and has classified these cash balances as restricted. An offsetting liability is recorded in the accompanying balance sheets.

(c) Allowance for Doubtful Accounts

Accounts receivable are expected to be fully collectible at June 30, 2012 and 2011, and accordingly, a provision for uncollectible accounts has not been established.

(d) Inventory

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

(e) Investments

Investments are recorded at their fair value.

(f) Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(g) Financial Accounting Standards Board (FASB) Pronouncements

The Department has elected not to apply FASB pronouncements issued after November 30, 1989.

(h) Capital Assets

Capital assets, which include land, buildings, improvements, fixtures, equipment, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the Department's financial statements.

(Continued)

Capital assets are defined by the State as assets with an initial individual cost of more than $25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department to capitalize all buildings, land, and land improvements, regardless of cost, and to capitalize infrastructure when the cost of individual items or projects exceeds $1,000,000. Such assets are recorded at historical cost, or estimated historical cost, if original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings, improvements, fixtures, and equipment are depreciated on a straight-line basis.

Capital assets 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.

For assets not part of infrastructure, the costs of normal preservation, maintenance, and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

For infrastructure, the State uses the "modified approach" to account for roads and bridges, as provided by Governmental Accounting Standards Board (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: (1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, (2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and (3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

The Department maintains two asset management systems, one for the roads and one for the bridges. In addition, the Department completes condition assessments on its roads and bridges at least every three years.

Buildings, improvements, fixtures, and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Years
Assets:	
Buildings and improvements	5 – 40
Fixtures and equipment	3 – 40

(i) Compensated Absences

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. 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 the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the

Department and its employees are accounted for in the period in which such services are rendered or such events take place.

(j) Bond Issue Premiums/Discounts

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Net amortization resulted in $9,706,037 and $9,186,755 of reductions of interest expense in 2012 and 2011, respectively.

(k) Revenues and Expenses

The Department defines nonoperating revenues as federal grant revenue, investment income, and collections on loans previously written off. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses and interest expense. All other expenses are a result of normal operations.

(3) Cash and Investments

(a) Cash Management Policy and Investment Guidelines

The policy for the investment of Department funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Department. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Department are categorized as "Authority Accounts." Investments of the Department are further restricted to "Qualified Investments" as defined in the Trust Agreement.

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2012 and 2011, investments of the Department are primarily in U.S. government securities, U.S. government agency securities, and commercial paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Agreement.

The Policy is available on the Internet at http://delcode.delaware.gov/title29/c061/index.shtml.

(b) Custodial Credit Risk

Deposits

The carrying amounts of the Department's deposits at June 30, 2012 and 2011 were $52,503,999 and $118,168,173, respectively, and the bank balances were $53,245,318 and $117,833,547, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, $51,052,680 and $107,624,343 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2012 and 2011, respectively. The remaining bank balances of $2,192,638 and $10,209,204 were neither insured nor collateralized at June 30, 2012 and 2011, respectively.

As of June 30, 2012 and 2011, the Department had part of its cash and cash equivalents of $1,936,712 and $9,375,910, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State investment pool and internal investment pool are specifically identified for the Department, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

Investments

Investments of the Department are stated at fair value. At June 30, 2012 and 2011, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name.

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 Department 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, 2012.

		Investment maturities (in years)			
	Fair value	**Less than 1**	**1 – 5**	**6 – 10**	**11 – 15**
Investment type:					
U.S. government securities	$ 42,105,415	12,325,857	15,639,858	14,139,700	—
U.S. government agency securities	140,838,762	81,696,076	34,577,734	19,846,033	4,718,919
Commercial paper	172,204,705	172,204,705	—	—	—
	$ 355,148,882	266,226,638	50,217,592	33,985,733	4,718,919

The following table presents a listing of directly held investments and related maturities at June 30, 2011.

		Investment maturities (in years)		
	Fair value	Less than 1	1 – 5	6 – 10
Investment type:				
U.S. government securities	$ 29,973,391	17,589,824	11,200,135	1,183,432
U.S. government agency securities	123,509,799	60,337,517	33,988,759	29,183,523
Commercial paper	235,329,528	235,229,681	99,847	—
	$ 388,812,718	313,157,022	45,288,741	30,366,955

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department follows the Policy and the Trust Agreement by investing only in authorized securities. The Department'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.

In addition, the Trust Agreement limits investments in commercial paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in commercial paper of $172,204,705 and $235,329,528 at June 30, 2012 and 2011, respectively. All commercial paper held was short-term and rated in accordance with the Trust Agreement. The investments in U.S. Government and Government Agency Securities are rated at Aaa with Moody's and AA+ with Standard & Poor.

Investments in Excess of 5%

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department'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. Investments due to mature in one business day may be excluded from the computation of said limitations.

A. U.S. Government – no restrictions.

B. Government agency – 50% total; 20% in any one agency.

C. Certificates of deposits, time deposits and bankers acceptances – 50% total; 5% in any one issuer.

   1. Domestic – No additional restrictions.

   2. Non-domestic – 25%, 5% in any one issuer.

3. Delaware domiciled – Not more than the lesser of $10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt – 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

   1. Domestic – No additional restrictions.

   2. Non-Domestic – 25%; 5% in any one issuer.

E. Repurchase agreements – 50% total.

F. Reverse repurchase agreements – 25% total.

G. Money market funds – 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

H. Canadian treasuries – 25% total; 10% in any one agency.

I. Canadian agency securities – 25% total; 10% in any one agency.

J. Mortgage-backed and asset-backed securities – 10% total (when combined with asset-backed securities and trust certificates if applicable).

K. Municipal obligations – 5% in any one issuer.

L. Guaranteed investment contracts – Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

M. Asset-backed securities and trust certificates – 10% total (when combined with mortgage-backed and asset-backed securities if applicable).

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2012:

Federal Home Loan Mortgage Corporation	$	64,751,556	18%
Federal National Mortgage Association		63,336,588	18
ML Pierce Fenner & Smith		59,812,000	17
United States Treasury		42,105,412	12
Rabobank USA Financial Corp		21,176,167	6
Nestle Capital Corp		20,799,245	6

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2011:

Federal National Mortgage Association	$	65,198,365	17%
Federal Home Loan Mortgage Corporation		58,311,163	15
BNP Paribas Finance Inc		29,207,828	8
General Electric Capital Corp		22,610,223	6

Investment Commitments

The Department has made no investment commitments as of June 30, 2012.

(4) Accounts Receivable

Accounts and loans receivable at June 30, 2012 and 2011 are detailed as follows:

		2012	2011
Receivables:			
Interest	$	643,165	694,941
Trade		16,519,547	14,029,912
Federal grant		22,399,900	21,492,406
Total receivables		39,562,612	36,217,259
Allowance for doubtful accounts		—	—
Total receivables – net of allowance	$	39,562,612	36,217,259
Amounts not scheduled for collection during the subsequent year	$	—	—

(5) Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 276,760,943	—	—	276,760,943
Infrastructure	3,481,074,684	83,272,257		3,564,346,941
Construction in progress	—	2,486,712	—	2,486,712
Total capital assets not being depreciated	3,757,835,627	85,758,969	—	3,843,594,596
Capital assets being depreciated:				
Buildings and improvements	98,057,306	6,917,401	(137,709)	104,836,998
Fixtures and equipment	239,414,912	22,524,792	(7,433,205)	254,506,499
Total capital assets being depreciated	337,472,218	29,442,193	(7,570,914)	359,343,497
Less accumulated depreciation for:				
Buildings and improvements	28,027,786	3,198,893	(114,827)	31,111,852
Fixtures and equipment	123,648,114	19,826,652	(6,501,770)	136,972,996
Total accumulated depreciation	151,675,900	23,025,545	(6,616,597)	168,084,848
Total capital assets being depreciated, net	185,796,318	6,416,648	(954,317)	191,258,649
Capital assets, net	$ 3,943,631,945	92,175,617	(954,317)	4,034,853,245

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 276,760,943	—	—	276,760,943
Infrastructure	3,432,677,271	48,397,413	—	3,481,074,684
Construction in progress	—	—	—	—
Total capital assets not being depreciated	3,709,438,214	48,397,413	—	3,757,835,627
Capital assets being depreciated:				
Buildings and improvements	91,065,392	6,991,914	—	98,057,306
Fixtures and equipment	237,416,409	13,427,974	(11,429,471)	239,414,912
Total capital assets being depreciated	328,481,801	20,419,888	(11,429,471)	337,472,218
Less accumulated depreciation for:				
Buildings and improvements	25,315,162	2,712,624	—	28,027,786
Fixtures and equipment	113,138,313	21,810,927	(11,301,126)	123,648,114
Total accumulated depreciation	138,453,475	24,523,551	(11,301,126)	151,675,900
Total capital assets being depreciated, net	190,028,326	(4,103,663)	(128,345)	185,796,318
Capital assets, net	$ 3,899,466,540	44,293,750	(128,345)	3,943,631,945

Depreciation expense for fiscal years 2012 and 2011 was $23,025,545 and $24,523,551, respectively.

(6) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds:					
Revenue bonds, gross	$ 1,210,880,000	222,870,000	(327,015,000)	1,106,735,000	83,230,000
Deferred amount on refunding	(1,628,306)	(18,321,871)	884,244	(19,065,933)	(2,692,230)
Revenue bonds, net	1,209,251,694	204,548,129	(326,130,756)	1,087,669,067	80,537,770
General obligation bonds	787,984	—	(346,503)	441,481	195,189
Bond issue premium, net of accumulated amortization	37,402,559	42,290,886	(11,130,634)	68,562,811	12,872,769
Insurance loss reserve	7,075,000	4,840,689	(2,906,689)	9,009,000	2,922,308
Post-employment benefits	111,335,102	44,840,364	(12,505,191)	143,670,275	—
Pollution remediation obligations	1,757,150	3,581,750	—	5,338,900	891,200
Return of federal funds	5,999,719	—	(3,000,000)	2,999,719	—
Compensated absences	14,351,198	2,719,520	(237,717)	16,833,001	6,840,570
Long-term liabilities	$ 1,387,960,406	302,821,338	(356,257,490)	1,334,524,254	104,259,806

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds:					
Revenue bonds, gross	$ 1,183,365,000	119,835,000	$ (92,320,000)	1,210,880,000	76,320,000
Deferred amount on refunding	(1,352,143)	(610,702)	334,539	(1,628,306)	(359,549)
Revenue bonds, net	1,182,012,857	119,224,298	(91,985,461)	1,209,251,694	75,960,451
General obligation bonds	1,451,314	—	(663,330)	787,984	346,503
Bond issue premium, net of accumulated amortization	39,844,281	6,988,432	(9,430,154)	37,402,559	7,952,314
Insurance loss reserve	6,420,000	4,682,340	(4,027,340)	7,075,000	4,130,201
Post-employment benefits	79,697,691	44,513,618	(12,876,207)	111,335,102	—
Pollution remediation obligations	2,794,200	—	(1,037,050)	1,757,150	644,000
Return of federal funds	—	7,999,719	(2,000,000)	5,999,719	—
Compensated absences	14,160,341	243,972	(53,115)	14,351,198	4,844,436
Long-term liabilities	$ 1,326,380,684	183,652,379	(122,072,657)	1,387,960,406	93,877,905

(7) Return of Federal Funds

During fiscal years 1992 – 1995, the Department participated in the Federal Highway Administration's (FHWA) Right-of-Way (ROW) Revolving Fund program and received a total of $7,999,719 to be used for the Advanced Right-of-Way Corridor Preservation project on SR-1. One parcel of land was purchased using the ROW funds but was subsequently sold. Due to the inability of the Department to commence a qualifying project within the required 10 years of FHWA apportionment, the funds must be repaid to the FHWA.

The Department has agreed upon a payment plan with FHWA where all of the funds will be returned by the end of fiscal year 2015 in accordance with the years of obligation. The first payment of $2 million was paid in June, 2011, and the second payment of $3 million was paid in June, 2012. The balance is expected to be repaid in July, 2015.

(8) General Obligation Bonds Outstanding

General obligation bonds outstanding at June 30, 2012 and 2011 are detailed as follows:

Sale #	Description and interest rates	Maturity date (fiscal year)	Balance outstanding June 30, 2011	Balance outstanding June 30, 2011
194	GO 2005B, 5.00%	2015	$ 358,598	473,708
191	GO + Refunding 2004A, 3.00% – 6.00%	2014	30,033	45,050
188	GO Refunding 2003B, 4.00% – 5.00%	2012	—	216,376
185	GO + Refunding 2002A, 4.00% – 5.25%	2013	52,850	52,850
	Totals		441,481	787,984
	Less current portion		195,189	346,503
	Long-term portion		$ 246,292	441,481

The general obligation bonds are direct obligations of the State and are secured by the full faith and credit of the State. Only that portion of the bonds attributable to the Department has been reflected in these financial statements.

The annual requirement to amortize all general obligation bonds payable as of June 30, 2012 was as follows:

	Principal maturity	Interest maturity	Total
Year ending June 30,:			
2013	$ 195,189	17,951	213,140
2014	142,866	9,777	152,643
2015	103,426	4,137	107,563
	$ 441,481	31,865	473,346

(9) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2012 and 2011 are detailed as follows:

Date of issue/maturity	Amount of original issue	Description and fixed interest rates	Balance outstanding 2012	Balance outstanding 2011
Senior bonds:				
2002/2022	173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 5.25%	$ 8,675,000	94,215,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 5.00%	51,720,000	126,955,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 4.00% – 5.00%	71,195,000	145,205,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.25% – 5.00%	70,825,000	134,245,000
2006/2026	127,445,000	Transportation System Senior Revenue Bonds, 2006 Series, 3.50% – 5.00%	106,725,000	111,600,000
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A Series, 4.00% – 5.00%	66,485,000	70,945,000
2008/2028	84,720,000	Transportation System Senior Revenue Bonds, 2008A Series, 4.00% – 5.00%	71,840,000	77,275,000
2008/2029	117,875,000	Transportation System Senior Revenue Bonds, 2008B Series, 4.00% – 5.00%	110,245,000	114,135,000
2009/2029	105,315,000	Transportation System Senior Revenue Bonds, 2009A Series, 5.00%	103,815,000	105,315,000
2010/2019	47,715,000	Transportation System Senior Revenue Bonds, 2010A Series, 4.00% – 5.00%	44,385,000	47,715,000
2010/2030	72,120,000	Transportation System Senior Revenue Bonds, 2010B Series, 3.95% – 5.80%	72,120,000	72,120,000
2012/2024	222,870,000	Transportation System Senior Revenue Bonds, 2012 Series, 3.00% – 5.00%	222,870,000	—

(Continued)

Date of issue/maturity	Amount of original issue	Description and fixed interest rates		Balance outstanding 2012	Balance outstanding 2011
GARVEE bonds:					
2010/2025	113,490,000	Transportation System Grant Anticipation Bonds, 2010 Series, 3.00% – 5.00%	$	105,835,000	111,155,000
				1,106,735,000	1,210,880,000
		Less deferred amount on refunding		19,065,933	1,628,306
				1,087,669,067	1,209,251,694
		Less current portion		80,537,770	75,960,451
			$	1,007,131,297	1,133,291,243

The Transportation System Senior Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. Summary financial information for the Trust Fund was as follows at June 30,:

Condensed Balance Sheets

		2012	2011
Assets:			
Current assets	$	301,709,967	403,222,831
Capital assets		1,234,701,053	1,165,201,210
Other assets		91,296,203	77,838,477
Total assets		1,627,707,223	1,646,262,518
Liabilities:			
Current liabilities		146,103,053	133,648,057
Noncurrent liabilities		1,066,305,501	1,169,442,739
Total liabilities		1,212,408,554	1,303,090,796
Net assets:			
Invested in capital assets, net of related debt		156,163,826	62,163,744
Unrestricted		92,264,253	110,225,103
Restricted		166,870,590	170,782,875
Total net assets	$	415,298,669	343,171,722

Condensed Statements of Revenues, Expenses, and Change in Net Assets

		2012	2011
Operating revenues (pledged against bonds)	$	375,799,976	372,613,034
Other operating revenues		52,965,781	52,990,462
Depreciation expense		(192,217)	(192,217)
Other operating expenses		(374,485,822)	(340,281,682)
Operating income		54,087,718	85,129,597
Nonoperating revenues (expenses):			
Investment income (pledged against bonds)		3,159,782	3,573,314
Other investment income (loss)		807,018	(973,326)
Interest expense		(42,070,709)	(46,469,920)
Federal grants		12,075,650	7,801,534
Bad debt recovery		820,566	788,914
Transfer from DelDOT		—	—
Transfer from State General Fund		43,246,922	27,233,343
Change in net assets		72,126,947	77,083,456
Beginning net assets		343,171,722	266,088,266
Ending net assets	$	415,298,669	343,171,722

Condensed Statements of Cash Flows

		2012	2011
Net cash provided by (used in):			
Operating activities	$	59,209,925	87,289,074
Noncapital financing activities		43,246,922	27,233,343
Capital and related financing activities		(196,376,877)	(41,402,170)
Investing activities		36,906,371	(901,969)
Net increase (decrease)		(57,013,659)	72,218,278
Beginning cash and cash equivalents		81,543,805	9,325,527
Ending cash and cash equivalents	$	24,530,146	81,543,805

The Transportation System GARVEE Bonds have fixed interest rates and are limited obligations of the Authority secured by and payable solely from the annual federal appropriation for the State's federal-aid transportation projects. On average, the State has been apportioned approximately $131 million in federal highway aid annually over the past five fiscal years. At that level, principal and interest payments on the GARVEE bonds are expected to require approximately 8% of pledged federal highway aid annually. While the Authority believes that sufficient pledged federal highway aid will be available during the term of the bonds to meet all required principal and interest payments, various factors beyond the Authority's control may impact the ability to make all payments when due, including, but not limited to, subsequent reauthorizations of federal highway aid and federal budgetary limitations.

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State or of any such political subdivision. The Authority had a total of $235,628,520 in authorized but unissued revenue bonds at June 30, 2012 to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2012 was as follows:

	Principal maturity	Interest maturity	Total
Year ending June 30,:			
2013	$ 83,230,000	48,096,911	131,326,911
2014	75,205,000	47,162,389	122,367,389
2015	77,655,000	43,465,369	121,120,369
2016	75,350,000	39,753,639	115,103,639
2017	72,840,000	36,243,389	109,083,389
2018 – 2022	366,785,000	128,329,003	495,114,003
2023 – 2027	271,790,000	49,289,742	321,079,742
2028 – 2032	83,880,000	7,362,379	91,242,379
	$ 1,106,735,000	399,702,821	1,506,437,821

On April 11, 2012, the Trust Fund issued $222,870,000 of Transportation System Senior Revenue Bonds, 2012 Series, to provide for an advance refunding of the following Transportation System Senior Revenue Bonds:

2002B Series	$ 81,300,000
2003 Series	59,615,000
2004 Series	61,725,000
2005 Series	48,055,000
	$ 250,695,000

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $27,096,222 and a reduction of $31,811,076 in future debt service payments.

On December 9, 2010, the Trust Fund issued $47,715,000 of Transportation System Senior Revenue Bonds, 2010A Series, to provide $27,155,000 in new proceeds for transportation projects and $20,560,000 for an advance refunding of the following Transportation System Senior Revenue Bonds:

2001 Series	$ 20,560,000

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $2,430,367 and a reduction of $2,631,383 in future debt service payments.

(10) Debt Defeasance

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt had been issued and the proceeds had been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures.

For financial reporting purposes, the debt is considered defeased, and therefore, not reported as a liability. As of June 30, 2012 and 2011, the amount of defeased debt outstanding amounted to $312,801,800 and $62,106,800, respectively.

(11) Pledged Revenues

The State has pledged turnpike, motor fuel tax, and motor vehicle fee revenues to the Trust Fund in order to provide additional means to finance the maintenance and development of the State's highway transportation system, as well as security for the repayment of the outstanding revenue bonds of the Authority. Proceeds from the revenue bonds were used to finance infrastructure maintenance, preservation, and construction related projects. The revenue bonds are payable solely from these pledged revenue streams and are not backed by the faith and credit of the State or any such political subdivision. Annual principal and interest payments on the revenue bonds are expected to require less than 35% of pledged revenues. The total principal and interest remaining to be paid on the revenue bonds as of June 30, 2012 and 2011 was $1,087,669,067 and $1,209,251,694, respectively. Principal and interest paid on the revenue bonds for the years ended June 30, 2012 and 2011 was $132,885,663 and $124,595,053, respectively. Total pledged revenues for the years ended June 30, 2012 and 2011 were $375,799,976 and $372,613,034, respectively.

(Continued)

(12) Restricted Net Assets

Restricted net assets were as follows at June 30,:

		2012	2011
Pension Funds:			
Prepaid DTC pension contributions	$	3,019,873	2,604,418
Rebate Fund:			
Amounts generated from operations to meet future arbitrage rebate requirements		1,225,875	994,570
Debt Service Funds:			
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments		99,484,355	101,774,934
Debt Reserve Funds:			
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments		66,160,360	68,013,371
Highway Beautification Funds:			
Amounts held in trust to be used for highway beautification		63,233	56,888
Total restricted net assets	$	169,953,696	173,444,181

(13) DTC 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. As of June 30, 2012, DTC was still negotiating terms for a new contract with this union.

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. As of June 30, 2012, DTC was still negotiating terms for a new contract with this union.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2007 through December 31, 2009. As of June 30, 2012, DTC was still negotiating terms for a new contract with this union.

(14) Pension Plans

Essentially all full-time Department employees are covered under the State of Delaware Defined Benefit Pension Plan (the Plan), with the exception of DTC employees, who are covered under separate plans (see note 15). The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds $6,000 per calendar year. Contributions by the Department are based on percentages of total employee compensation as specified by the Office of Pension and Investments, who administers the Plan.

In addition to the Plan contribution, the Department makes contributions to finance the costs of Post Retirement Increases (PRI) and Retiree Health Insurance (RHI). PRI are granted by the General Assembly to members retired under the State Employees' Plan. The funding mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund administered by the Pension Board. When the Legislature grants an ad hoc increase, the actuarial impact of the increase is funded over five years.

The following trend information for the current and preceding two years was as follows as of June 30,:

Fiscal year	Annual retirement expense	Employer contribution rate			
		Pension plan	PRI	RHI	Total
2012	$ 13,281,013	9.27%	0.50%	8.99%	18.76%
2011	11,816,997	8.30	0.81	8.09	17.20
2010	10,367,522	6.71	1.40	7.16	15.27

The State does not maintain the Plan information by agency, and therefore, the Department's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension Plan" is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904-2402.

(15) DTC Defined Benefit Pension Plans

(a) Plan Descriptions

DTC contributes to two single-employer defined benefit pension plans: 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. 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 is as follows:

		DTC Pension Plan	Contributory Pension Plan
Contribution rates:			
Employer		*	5.00%
Participants		N/A	5.00%
Annual pension cost	$	996,827	658,363
Contributions made		996,777	1,073,948
Actuarial valuation date		7/01/11	1/01/12
Actuarial cost method		Frozen initial liability	Entry age normal
Amortization method		Open Level Dollar	Open Level Percent
Remaining amortization period		30	15
Asset valuation method		Market	Five-year smoothed
Actuarial assumptions:			
Investment rate of return		7.50%	7.00%
Projected salary increases		2.50	4.00

Note: * = Actuarially Determined and N/A = Not Applicable

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.

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

		DTC Pension Plan	Contributory Pension Plan
		Year ended	
		June 30, 2012	December 31, 2011
Annual Required Contribution (ARC)	$	996,827	594,277
Interest on Net Pension Obligation (NPO)		8,202	(189,959)
Actuarial adjustment		(8,202)	254,045
Annual Pension Cost (APC)		996,827	658,363
Less actual contributions		(996,777)	(1,073,948)
Increase (decrease) in NPO		50	(415,585)
Net pension obligation (asset), beginning of the year		109,368	(2,713,706)
Net pension obligation (asset), end of the year	$	109,418	(3,129,291)

		Year ended	
		June 30, 2011	December 31, 2010
Annual Required Contribution (ARC)	$	1,111,548	579,883
Interest on Net Pension Obligation (NPO)		8,196	(151,732)
Actuarial adjustment		(8,196)	107,530
Annual Pension Cost (APC)		1,111,548	535,681
Less actual contributions		(1,111,468)	(1,081,793)
Increase (decrease) in NPO		80	(546,112)
Net pension obligation (asset), beginning of the year		109,288	(2,167,594)
Net pension obligation (asset), end of the year	$	109,368	(2,713,706)

(Continued)

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):

Three-Year Trend Information

	Plan year ended	Contributions made	Annual pension cost (APC)	Percentage of APC contributed	Net pension plan asset (liability)
DTC pension plan	06/30/2010	$ 1,033,487	1,033,998	99.95%	$ (109,288)
	06/30/2011	1,111,468	1,111,548	99.99	(109,368)
	06/30/2012	996,777	996,827	99.99	(109,418)
Contributory pension plan	12/31/2009	$ 1,063,098	674,249	157.67%	$ 2,167,594
	12/31/2010	1,081,793	535,681	201.95	2,713,706
	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:

Schedules of Funding Progress

	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 percentage of covered payroll ((a-b)/c)
DTC pension plan	07/1/2011	$ 15,121,491	16,236,313	(1,114,822)	93.13%	$ 11,253,210	(9.91)%
Contributory pension plan	01/1/2012	30,863,722	32,171,013	(1,307,291)	95.94	22,985,063	(5.69)

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.

(16) Other Post-Employment Benefits (OPEB)

Essentially all full-time Department employees are covered under the State of Delaware Other Post-Employment Benefits Fund Trust (the OPEB Trust), with the exception of DTC employees, who are covered under a separate plan (see note 17).

(a) Plan Description

On July 1, 2007, the OPEB Trust was established pursuant to Section 115 of the Internal Revenue Code and separate from the Delaware Public Employees' Retirement System (DPERS). The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust, but the OPEB Trust is included in the Statewide Comprehensive Annual Financial Report, which will be available from the Division of Accounting.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans.

Membership of the Plan consisted of the following at June 30, 2012:

Retirees and beneficiaries receiving benefits	$	19,530
Terminated plan members entitled to but not yet receiving the benefits		2,301
Active eligible plan members		36,154
Total	$	57,985

The Department has approximately 1,700 active eligible plan members, which is the basis on which Plan costs are allocated.

Substantially all of the State's employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The Plan provisions are as follows:

Eligibility

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service.

Normal Retirement:

For employees hired prior to January 1, 2012 – Age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service.

For employees hired on or after January 1, 2012 – Age 65 with 5 years of service or age 60 with 20 years of service or any age with 30 years of service.

Benefits

During the fiscal years ended June 30, 2012 and 2011, the State provided health insurance options through several providers whose plans all include hospital, medical, mental health, substance abuse, and prescription drug benefits.

Spouse and Survivor Coverage

Both are available under any of the plan options with similar retiree contributions.

(Continued)

Employee Contributions

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service, as follows:

	Percent of premium paid by State
Years of service:	
Less than 10	—%
10 – 14	50
15 – 19	75
20 or more	100

(b) Funding Policy

The State funds the OPEB Trust for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State statute Title 29 of the Delaware Code c.52, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the Trust financial statements. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the Trust.

(c) Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percentage of covered payroll, with an additional amount to pre-fund benefits, which is not actuarially determined. For fiscal year 2012, the State contribution in relation to the annual required contribution of the employer (ARC) totaled $186.1 million. The portion of the contribution allocated to the Department for fiscal year 2012 was $9.9 million. For fiscal year 2011, the State contribution in relation to the ARC totaled $182.3 million. The portion of the contribution allocated to the Department for fiscal year 2011 was $9.8 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage during fiscal years 2012 and 2011 totaled $6.5 million and $6.2 million, respectively.

(d) Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the ARC, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligation. The following table shows the components of the State's annual OPEB cost for the year, the amount actually contributed to the Plan, and the State's net OPEB obligation, as well as the amounts allocated to the Department (dollar amounts in millions):

		State total	Department allocation
Net OPEB obligation as of June 30, 2010	$	956.5	49.3
Annual required contribution		488.1	26.2
Interest on net OPEB obligation		48.2	2.6
Adjustment to annual required contribution		(38.5)	(2.1)
Annual OPEB cost		1,454.3	76.0
Employer contributions		(182.3)	(9.8)
Net OPEB obligation as of June 30, 2011	$	1,272.0	66.2
Net OPEB obligation as of June 30, 2011	$	1,272.0	66.2
Annual required contribution		490.5	26.0
Interest on net OPEB obligation		54.4	2.9
Adjustment to annual required contribution		(49.4)	(2.6)
Annual OPEB cost		1,767.5	92.5
Employer contributions		(186.1)	(9.9)
Net OPEB obligation as of June 30, 2012	$	1,581.4	82.6

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows (dollar amounts in millions):

		Annual OPEB Cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
Fiscal year ended:					
6/30/12	$	92.5	11%	$	82.6
6/30/11		76.0	13		66.2
6/30/10		58.5	16		49.3

(e) Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the Plan was 2.8% funded. The actuarial accrued liability for benefits was $5,805 million, and the actuarial value of assets was $163 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,641 million for the State. The covered payroll (annual payroll of active employees covered by the Plan) was $1,885 million, and the ratio of the UAAL to the covered payroll was 299%. Specific amounts related to the Department cannot be determined.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(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 June 30, 2012 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on Plan assets and on the State’s own investments calculated based on the funded level of the Plan at the valuation date, and an initial medical inflation rate of between 5.50% and 6.00%, depending on the type of coverage, with an ultimate rate of 4.25%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

(17) DTC Post-Employment Benefits

(a) Plan Description

On June 1, 2010, the Delaware Transit Corporation OPEB Fund Trust (the DTC OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The DTC OPEB Trust is administered by DTC. Policy for and management of the OPEB benefits provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the DTC OPEB Trust.

The DTC OPEB Trust is a single-employer defined benefit plan. The DTC OPEB Trust provides retirement medical coverage to retired employees and their eligible dependents. DTC has elected to assume the DTC OPEB Trust liability on behalf of all of its employees.

Membership of the Plan consisted of the following at June 30, 2012:

Retirees and beneficiaries receiving benefits	$	97
Terminated plan members entitled to but not yet receiving the benefits		30
Active eligible plan members		785
Total	$	912

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 5 years of service or after attaining 25 years of service.

Noncontract Employees:

Age 55 with 10 years of service or age 62 with 5 years of service.

Benefits

During the fiscal year ended June 30, 2012, 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

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding on an ad hoc basis. Funds are recorded in the DTC 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 DTC OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee and is responsible for the financial management of the DTC OPEB Trust. The cash basis costs associated with these benefits were $1,168,152 and $1,042,565 for the years ended June 30, 2012 and 2011, respectively.

(c) 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.

(d) Annual OPEB Cost and Net OPEB Obligation

DTC's annual OPEB cost is calculated based on the ARC, 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 set aside 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 for fiscal year 2012 and the preceding year, the amount actually contributed to the Plan, and DTC's net OPEB obligation:

Net OPEB obligation at of June 30, 2010	$	30,386,000
Annual required contribution		15,727,000
Interest on net OPEB obligation		1,215,000
Adjustment to annual required contribution		(1,170,000)
Net OPEB obligation before contributions		46,158,000
Contributions made		(1,043,000)
Prefunding trust contribution		—
Net OPEB obligation as of June 30, 2011	$	45,115,000

Net OPEB obligation as of June 30, 2011	$	45,115,000
Annual required contribution		17,074,000
Interest on net OPEB obligation		1,799,000
Adjustment to annual required contribution		(1,799,000)
Net OPEB obligation before contributions		62,189,000
Contributions made		(1,168,152)
Prefunding trust contribution		—
Net OPEB obligation as of June 30, 2012	$	61,020,848

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

	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
Fiscal year ended:			
June 30, 2012	$ 17,074,000	6.84%	$ 61,020,848
June 30, 2011	15,772,000	6.61	45,115,000
June 30, 2010	11,810,000	20.02	30,386,000

(e) Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 1.3% funded. The actuarial accrued liability was $125,866,000, and the actuarial value of assets was $1,605,000, resulting in an unfunded actuarial accrued liability (UAAL) of $124,261,000. The covered payroll (annual payroll of active employees covered by the Plan) was $31,883,191, and the ratio of the UAAL to the covered payroll was 389.74%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, 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, 2011 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, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced by decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year closed amortization period.

(18) Commitments and Contingencies

(a) Construction Commitments

The Department had contractual commitments of $331,977,665 and $262,826,587 for construction of various highway projects at June 30, 2012 and 2011, respectively. Current and future appropriations will fund these commitments as work is performed.

(b) Litigation

The Department 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 the Department.

(c) Pollution Remediation

GASB 49 provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Department to search for pollution, it does require the Department to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Department is compelled to take action;
- The Department is in violation of a pollution related permit or license;
- The Department is named or has evidence that it will be named as a responsible party by a regulator;
- The Department is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The Department commences or legally obligates itself to conduct remediation activities.

The Department becomes aware of pollution conditions in the fulfillment of its mission, and site investigation, planning and design, cleanup and site monitoring are typical remediation activities of the Department. The Department has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. GASB 49 requires the Department to calculate pollution remediation liabilities using the expected cash flow technique. Where the Department cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the Department has not identified any of these situations.

The remediation obligation estimates presented in these financial statements are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other

(Continued)

factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Department's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During fiscal years 2012 and 2011, the Department did not recognize any additional liabilities, had no spending related to pollution remediation obligation related activities, and had no recoveries from other responsible parties. For fiscal year 2012, the liability initially recorded was increased by $3,581,750 due to revised cost estimates. At June 30, 2012 and 2011, the Department had an outstanding pollution remediation liability of $5,338,900 and $1,757,150, respectively.

(19) Risk Management

The Department is exposed to various risks of loss related to workers' compensation, healthcare, automobile, and casualty claims. Except as noted below, the Department is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Department pays premiums to the General Fund for this coverage.

(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 from the workers' compensation loss contingency reserve. Once a specific 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 is insured through the State. Under the State program, DTC pays a premium calculated as $7.36 and $4.50 per $100 of payroll for the years ended June 30, 2012 and 2011, 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 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 $300,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329).

DTC has several cases that were settled in excess of the sovereign immunity cap. The exposure on these cases cannot be reasonably quantified. 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 insurance coverage in the amounts identified in the table below:

	Initial loss reserve insurance liability established	Maximum amount of loss under self-insured retention program (per occurrence)	Excess commercial coverage (aggregate)
2003	$ 2,561,000	1,300,000	10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000
2007 (07/01/06 – 01/14/07)	2,607,350	2,300,000	5,000,000
2007 (01/15/07 – 06/30/07)	*	900,000	**
2008	3,106,000	900,000	**
2009	3,129,000	900,000	**
2010	3,467,000	1,000,000	***
2011	3,372,000	1,000,000	***

* Initial loss reserve established at 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 were as follows at June 30,:

	2012	2011
Auto loss reserve remaining for fiscal year:		
2012	$ 3,211,000	—
2011	3,438,000	3,095,000
2010	1,715,000	2,291,000
2009	338,000	872,000
2008	228,000	644,000
2007	50,000	116,000
2006	20,000	34,000
2005	5,000	12,000
2004	—	7,000
1999	4,000	4,000
	$ 9,009,000	7,075,000

Changes in the balances of total claim liabilities during fiscal years 2012 and 2011 were as follows:

	Beginning balance July 1	Current year estimated claims and changes in estimates	Actual claim payments	Ending balance June 30
Fiscal year:				
2012	$ 7,075,000	4,840,689	(2,906,689)	9,009,000
2011	6,420,000	4,682,340	(4,027,340)	7,075,000

(20) Operating Leases

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were $272,602 and $277,263 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2012 are as follows:

2013	$	257,797
2014		258,197
2015		260,597
2016		188,747
2017		47,993
2018 – 2021		5,400
	$	1,018,731

DTC had an operating lease agreement for transit vehicle tires, which 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, 2012 and 2011, DTC incurred expenses related to this lease of $265,853 and $248,578, respectively.

(21) Transfers from the State General Fund

The State of Delaware's General Assembly and the State of Delaware's Division of Revenue transferred the following amounts as general operating support from the State's General Fund to the Department at June 30,:

		2012	2011
Amounts transferred to the Trust Fund:			
Division of Motor Vehicles	$	2,950,000	2,950,000
Division of Revenue, Motor Vehicle Dealer/Lessor license and document fees		296,922	283,343
Supplemental appropriation from fiscal year Bond Bill		40,000,000	14,000,000
Supplemental appropriation from fiscal year Grant-in-Aid Bill		—	10,000,000
	$	43,246,922	27,233,343

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information – Governments That Use the Modified Approach for Infrastructure Assets

	BCR condition rating	Structural rating numbers and percentages for bridges 2012 Number	2012 Percentage	2010 Number	2010 Percentage	2009 Number	2009 Percentage
Good	6 – 9	1,149	72.2%	1,137	72.8%	1,144	73.5%
Fair	5	322	20.2	313	20.0	295	19.0
Poor	0 – 4	120	7.6	112	7.2	117	7.5
Totals		1,591	100.0%	1,562	100.0%	1,556	100.0%

	OPC condition rating	Deck rating numbers and percentages for bridges 2012 Square feet	2012 Percentage	2010 Square feet	2010 Percentage	2009 Square feet	2009 Percentage
Good	6 – 9	6,476,158	90.3%	6,685,282	91.1%	6,800,531	92.8%
Fair	5	687,461	9.6	651,712	8.8	510,306	6.9
Poor	0 – 4	10,720	0.1	4,994	0.1	19,558	0.3
Totals		7,174,339	100.0%	7,341,988	100.0%	7,330,395	100.0%

	OPC condition rating	Centerline mile numbers and percentages for roadways 2011 Centerline mile	2011 Percentage	2009 Centerline mile	2009 Percentage	2008 Centerline mile	2008 Percentage
Good	3.0 – 5.0	3,796	86.7%	3,423	78.5%	3,007	67.6%
Fair	2.5 – 3.0	400	9.1	575	13.2	1,000	22.5
Poor	Below 2.5	182	4.2	362	8.3	440	9.9
Totals		4,378	100.0%	4,360	100.0%	4,447	100.0%

Comparison of Estimated-to-Actual Maintenance/Preservation (in thousands)*

		2012	2011	2010
Estimated	$	341,004	426,621	282,008
Actual		294,522	250,492	333,307

* The estimated expenditure represents annual Bond Bill authorizations and federal spending appropriations. The actual expenditure represents the current year spending, which includes cumulative authorizations.

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the FHWA Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2012 is not available for all assessments.

Required Supplementary Information – DTC 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.

Schedules of funding progress

	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 percentage of covered payroll ((a-b)/c)
DTC pension plan	07/1/2009	$ 10,282,778	10,797,306	(514,528)	95.23%	$ 11,624,462	(4.43)%
	07/1/2010	12,329,167	12,841,594	(512,427)	96.01	11,464,713	(4.47)
	07/1/2011	15,121,491	16,236,313	(1,114,822)	93.13	11,253,210	(9.91)
Contributory pension plan	01/1/2010	$ 26,246,390	27,215,318	(968,928)	96.44%	$ 22,675,263	(4.27)%
	01/1/2011	29,920,228	29,601,647	318,581	101.08	22,847,401	1.39
	01/1/2012	30,863,722	32,171,013	(1,307,291)	95.94	22,985,063	(5.69)

Required Supplementary Information – DTC OPEB Trust

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

Schedules of funding progress

	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 percentage of covered payroll ((a-b)/c)
DTC OPEB Trust	07/1/2009	$ —	82,631,000	(82,631,000)	—%	$ 31,420,280	(262.99)%
	07/1/2010	1,500,000	111,122,000	(109,622,000)	1.3	31,293,725	(350.3)
	07/1/2011	1,605,000	125,866,000	(124,261,000)	1.3	31,883,191	(389.74)

ADDITIONAL INFORMATION

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Schedule of Revenue Bond Coverage (Unaudited)

June 30, 2012

(In thousands)

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Department. Further information for the Department may b found in the notes to financial statements, changes in long-term liabilities and bonds outstanding

Fiscal year	Gross pledged revenue	Debt service requirements			Coverage*
		Principal	Interest	Total	
2003	302,754	41,490	44,957	86,447	3.50
2004	308,091	47,640	38,176	85,816	3.59
2005	300,820	53,920	39,370	93,290	3.22
2006	337,350	58,445	40,573	99,018	3.41
2007	346,954	61,370	45,534	106,904	3.25
2008	381,590	67,640	46,210	113,850	3.35
2009	367,399	73,510	43,619	117,129	3.14
2010	363,948	74,380	50,885	125,265	2.91
2011	376,186	71,760	52,585	124,345	3.03
2012	378,960	76,320	56,411	132,731	2.86

* The above coverage calculation represents the total gross pledged revenue as it relates to the total debt service requirement of all Senior and Junior Bonds. The calculation method used in the Official Statement per the Trust Agreement calculates only th Senior Bond debt service requirement and subtracts investment income revenue from gross pledged revenu

See accompanying independent auditors’ report.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

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*

Delaware Department of Transportation
Dover, Delaware:

We have audited the financial statements of the State of Delaware Department of Transportation (Department of Transportation), an Enterprise Fund of the State of Delaware, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 2, 2012, which includes an explanatory paragraph noting that the Department of Transportation is a fund of the State of Delaware. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Department of Transportation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department of Transportation's internal control over financial reporting as a basis for designing our auditing procedures 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 Department of Transportation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department of Transportation's internal control over financial reporting.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Transportation'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*.

We noted certain matters that we reported to management of the Department of Transportation in a separate letter dated November 2, 2012.

This report is intended solely for the information and use of management, State of Delaware Secretary of Transportation, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, Department of Finance and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 2, 2012