DELAWARE TRANSIT CORPORATION

Financial Statements
June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

Issuance Date: December 15, 2016

Delaware Transit Corporation

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Santora CPA Group
Right, By Your Side

William A. Santora, CPA
John A. D'Agostino, CPA, MST
Heath N. Kahrs, CPA
Robert S. Smith, CPA
Stacey A. Powell, CPA, CFE, CICA

Robert Freed, Principal
Linda A. Pappajohn, Principal
Stephen M. Conyers, CPA, Principal

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Transit Corporation (DTC), a blended component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, as of and for the Fiscal Years Ended June 30, 2016 and 2015, and the related notes to financial statements, which collectively comprise DTC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Christiana Executive Campus ▲ 220 Continental Drive ▲ Suite 112 ▲ Newark, DE 19713-4309
Phone: (302) 737-6200 ▲ (800) 347-0116 ▲ Fax: (302) 737-3362
E-Mail: info@santoracpagroup.com ▲ www.santoracpagroup.com

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DTC as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle Resulting from the Adoption of New Accounting Pronouncements

As discussed in Note 2(k) to the financial statements, during Fiscal Year 2015, DTC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Board of Trustees

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated November 29, 2016, on our consideration of DTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DTC's internal control over financial reporting and compliance.

Santora CPA Group

November 29, 2016
Newark, Delaware

This section of the Delaware Transit Corporation's (DTC) annual financial statements presents our discussion and analysis of DTC's financial performance during the Fiscal Years Ended June 30, 2016 and 2015.

Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates the Delaware Administration for Regional Transit (DART) First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of DART, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 244 fixed route and 294 paratransit vehicles on 73 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 37 park-and-ride lots and 11 park-and-pool lots with an estimated 5,181 parking spaces. DTC maintains approximately 2,614 bus stops throughout the State of Delaware (the State), with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carried over 10.6 million riders.

Financial Highlights

- The 2016 operating revenues were approximately $20.8 million and were $0.5 million less than 2015 operating revenues. The decrease is due to a decrease in passenger fares, offset by an increase in auxiliary transportation.

- Total 2016 operating expenses before depreciation were approximately $120.7 million and were $2.3 million less than 2015 operating expenses. The decrease in operating expenses before depreciation is largely due to decreased costs for fuel and workers' compensation, which were partially offset by an increase in medical costs.

- A $16.3 million investment was made in capital assets during the current year (the funding was $8.0 million in state capital grants and $8.3 million in federal capital grants). This is primarily attributable to the purchase of revenue vehicles.

Overview of the Financial Statements

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

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

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

Financial Analysis

Net Position

Total assets decreased 0.5% to $163.4 million. Total liabilities increased 9.7% to $141.4 million in 2016 and 11.2% to $128.9 million in 2015. Total net position at June 30, 2016 was approximately $27.3 million, a 25.8% decrease from June 30, 2015.

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

				Percentage Change	
	2016	**2015**	**2014**	**2016 - 2015**	**2015 - 2014**
Current assets	$ 42.4	$ 40.6	$ 36.7	4.4 %	10.6 %
Capital assets, net	121.0	123.4	122.2	(1.9)	1.0
Other noncurrent assets	-	0.2	3.7	(100.0)	(94.6)
Total assets	163.4	164.2	162.6	(0.5)	1.0
Deferred outflows of resources	6.3	2.2	-	186.4	100.0
Current liabilities	15.5	16.0	13.2	(3.1)	21.2
Noncurrent liabilities	125.9	112.9	102.7	11.5	9.9
Total liabilities	141.4	128.9	115.9	9.7	11.2
Deferred inflows of resources	1.0	0.7	-	42.9	100.0
Net position					
Net investment in capital assets	121.0	123.4	122.2	(1.9)	1.0
Restricted	-	0.2	3.7	(100.0)	(94.6)
Unrestricted	(93.7)	(86.8)	(79.2)	7.9	9.6
Total net position	$ 27.3	$ 36.8	$ 46.7	(25.8)	(21.2)

Other noncurrent assets decreased $0.2 million due to a decrease in the net pension asset. The increase in total liabilities was due to (a) an increase in other post-employment benefits payable, which increased $10.8 million to $112.3 million due to DTC not fully funding the annual required contribution, and (b) an increase in net pension liability, which increased $4.8 million as a result of actual returns on investments being less than the expected returns on investments in the DTC and DART pension plans.

Changes in Net Position

The decrease in net position as of June 30, 2016 was approximately $9.5 million, which is a decrease in net position of 25.8% over 2015. Total operating expenses decreased 2.0% to approximately $139.3 million.

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

				Percentage Change	
	2016	**2015**	**2014**	**2016 - 2015**	**2015 - 2014**
Operating revenues					
Passenger revenue	$ 18.3	$ 18.5	$ 16.3	(1.1)%	13.5 %
Other operating revenues	2.5	2.8	1.9	(10.7)	47.4
Total operating revenues	20.8	21.3	18.2	(2.3)	17.0
Operating expenses					
Operating expenses	120.7	123.0	126.0	(1.9)	(2.4)
Depreciation	18.6	19.1	18.4	(2.6)	3.8
Total operating expenses	139.3	142.1	144.4	(2.0)	(1.6)
Operating loss	(118.5)	(120.8)	(126.2)	(1.9)	(4.3)
Nonoperating revenues, net	5.4	6.0	4.1	(10.0)	46.3
Capital contributions	8.3	13.8	25.9	(39.9)	(46.7)
Transfers from DelDOT	95.3	92.9	91.3	2.6	1.8
Change in net position	(9.5)	(8.1)	(4.9)	17.3	65.3
Total net position - beginning of year, as previously stated	36.8	46.7	51.6	(21.2)	(9.5)
Prior period adjustment - Implementation of GASB Nos. 68 and 71	-	(1.8)	-	(100.0)	100.0
Total net position - beginning of year, as restated	36.8	44.9	51.6	(18.0)	(13.0)
Total net position - end of year	$ 27.3	$ 36.8	$ 46.7	(25.8)	(21.2)

The decrease in total operating expenses in 2016 is due to a decrease in fuel and workers' compensation cost. The decrease in total operating expenses in 2015 was due to an adjusting entry decreasing property damage and professional liability expenses based on the actuary report.

Capital contributions were down $5.5 million due to DTC's timing related to vehicle replacement and expansion schedules.

Capital Assets

As of June 30, 2016 and 2015, DTC had $250.8 million and $242.2 million, respectively, invested in capital assets, which included land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's net capital assets at June 30, 2016 and 2015 totaled $121.0 million and $123.4 million, respectively.

Net capital assets decreased $2.4 million during the Fiscal Year Ended June 30, 2016 and increased $1.2 million during the Fiscal Year Ended June 30, 2015. The decrease in capital assets for the Fiscal Year Ended June 30, 2016 amounting to $16.3 million is primarily attributed to the purchase of revenue vehicles, offset by depreciation expense of $18.6 million. The increase in capital assets for the Fiscal Year Ended June 30, 2015 amounting to $20.3 million is primarily attributed to the purchase of revenue vehicles, offset by depreciation expense of $19.1 million.

Assets disposed of during 2016 and 2015 totaled $7.6 million and $26.0 million, respectively. Disposals related primarily to the replacement of revenue vehicles.

Economic Factors and Next Year's Budget

DTC submits their operating and capital budgets as part of DelDOT's submission to the General Assembly. DTC's Fiscal Year 2017 operating and capital budgets have been authorized by the General Assembly to meet the demand for core transit services in the State. The Fiscal Year 2017 total operating budget is $118.3 million, which is 3.3% higher than Fiscal Year's 2016 operating budget. The capital budget is $74.7 million, which authorizes funding for purchases of replacement and expansion transit vehicles, facility construction, and rail projects.

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, was effective for DTC beginning in 2008. DTC provides post-retirement healthcare benefits to all employees who retire from DTC after meeting eligibility requirements. GASB No. 45 requires calculation of the unfunded actuarial accrued liability and annual required contributions related to these post-retirement benefits. The pay-as-you-go cash basis costs associated with these benefits was $1.8 million and $1.4 million for the Fiscal Years Ended June 30, 2016 and 2015, respectively. The impact on the financial statements based upon this standard was the recognition of $12.6 million and $11.9 million in benefit expenses for the Fiscal Years Ended June 30, 2016 and 2015, respectively. DTC expects a similar impact on the 2017 financial statements.

Contacting DTC's Financial Management

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

Delaware Transit Corporation
Statements of Net Position
June 30, 2016 and 2015

Assets	2016	2015
Current assets		
Cash and cash equivalents	$ 35,604,319	$ 34,715,497
Accounts receivable		
Trade	1,366,353	1,016,993
Federal	673,784	765,313
State	1,323,315	758,138
Inventory	3,199,762	3,096,249
Escrow insurance deposits	170,743	167,356
Prepaid expenses	4,611	39,974
Total current assets	42,342,887	40,559,520
Noncurrent assets		
Capital assets, nondepreciable		
Land	1,872,536	1,872,536
Capital assets, depreciable		
Buildings and improvements	63,079,173	57,862,351
Fixtures, vehicles, and equipment	185,853,053	182,422,919
Total capital assets	250,804,762	242,157,806
Less: accumulated depreciation	(129,777,858)	(118,779,115)
Total capital assets, net	121,026,904	123,378,691
Net pension asset	-	253,443
Total noncurrent assets	121,026,904	123,632,134
Total assets	163,369,791	164,191,654
Deferred outflows of resources		
Pension contributions made after the measurement date	2,508,122	2,232,549
Differences between projected and actual earnings on pension plan investments	3,811,702	-
Total deferred outflows of resources	$ 6,319,824	$ 2,232,549

(Continued)

Delaware Transit Corporation
Statements of Net Position
June 30, 2016 and 2015

Liabilities and Net Position	2016	2015
Current liabilities		
Accounts payable and other accrued expenses	$ 8,792,308	$ 10,317,149
Accrued payroll and related expenses	2,714,327	2,124,008
Insurance loss reserve	2,827,546	2,485,340
Compensated absences	1,174,250	1,127,251
Total current liabilities	15,508,431	16,053,748
Noncurrent liabilities		
Compensated absences - net of current portion	1,894,478	2,194,981
Insurance loss reserve - net of current portion	6,897,454	9,168,660
Other post-employment benefits payable	112,331,937	101,508,765
Net pension liability	4,800,825	-
Total noncurrent liabilities	125,924,694	112,872,406
Total liabilities	141,433,125	128,926,154
Deferred inflows of resources		
Differences between projected and actual earnings on pension plan investments	1,007,410	706,367
Total deferred inflows of resources	1,007,410	706,367
Net position		
Investment in capital assets	121,026,904	123,378,691
Restricted	-	253,443
Unrestricted	(93,777,824)	(86,840,452)
Total net position	$ 27,249,080	$ 36,791,682

See accompanying notes to financial statements.

Delaware Transit Corporation
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues		
Passenger fares	$ 18,286,391	$ 18,452,285
Advertising	493,075	586,879
Miscellaneous	1,113,808	1,522,452
Auxiliary transportation	933,563	711,243
Total operating revenues	20,826,837	21,272,859
Operating expenses		
Payroll expense	83,512,215	79,833,141
Professional fees and services	20,734,558	21,598,327
Materials and supplies	9,979,734	13,743,180
Office and miscellaneous	6,474,823	7,847,313
Total operating expenses before depreciation	120,701,330	123,021,961
Depreciation	18,617,504	19,131,585
Total operating expenses	139,318,834	142,153,546
Operating loss	(118,491,997)	(120,880,687)
Nonoperating revenues (expenses)		
Federal operating assistance	7,671,890	7,475,681
Pass-through grant revenue	3,048,776	3,528,336
Pass-through grant expense	(5,375,069)	(4,962,061)
Excess of nonoperating revenues over nonoperating expenses	5,345,597	6,041,956
Loss before contributions and transfers	(113,146,400)	(114,838,731)
Capital contributions	8,322,063	13,791,965
Transfers from DelDOT	95,281,735	92,915,587
Change in net position	(9,542,602)	(8,131,179)
Net position, beginning of year	36,791,682	46,672,478
Prior period adjustment - implementation of GASB Nos. 68 and 71		
Net pension asset (measurement date)	-	(3,815,944)
Deferred outflows - DTC's contributions made during Fiscal Year 2014	-	2,066,327
Total prior period adjustment	-	(1,749,617)
Net position, beginning of the year, as restated	36,791,682	44,922,861
Net position, end of year	$ 27,249,080	$ 36,791,682

See accompanying notes to financial statements.

Delaware Transit Corporation
Statements of Cash Flows
June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from passengers	$ 17,937,031	$ 18,374,660
Payments to suppliers	(36,452,135)	(39,820,124)
Payments to employees	(68,694,416)	(63,791,063)
Insurance claims paid	(6,648,744)	(5,537,731)
Other receipts	2,540,447	2,820,390
Net cash used in operating activities	(91,317,817)	(87,953,868)
Cash flows from noncapital financing activities		
Federal operating subsidies	7,671,890	7,475,681
Pass-through grant revenue	3,048,776	3,528,336
Pass-through grant payments	(5,375,069)	(4,962,061)
Transfers from DelDOT	87,309,555	86,895,246
Net cash provided by noncapital financing activities	92,655,152	92,937,202
Cash flows from capital and related financing activities		
Proceeds from capital contributions	8,413,592	14,842,441
Transfers from DelDOT - capital	7,406,999	5,828,390
Acquisition of capital assets	(16,265,717)	(20,356,310)
Net cash provided by (used in) capital and related financing activities	(445,126)	314,521
Cash flows from investing activities		
Payments (to) from insurance escrow account	(3,387)	22,971
Net cash provided by (used in) investing activities	(3,387)	22,971
Net increase in cash and cash equivalents	888,822	5,320,826
Cash and cash equivalents - beginning of year	34,715,497	29,394,671
Cash and cash equivalents - end of year	$ 35,604,319	$ 34,715,497

(Continued)

Delaware Transit Corporation
Statements of Cash Flows
June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (118,491,997)	$ (120,880,687)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	18,617,504	19,131,585
Adoption of GASB Nos. 68 and 71	-	(178,743)
Changes in assets and liabilities		
(Increase) decrease in trade accounts receivable	(349,360)	77,625
(Increase) decrease in inventory	(103,514)	476,943
Decrease in prepaid expenses	35,363	28,965
Pension adjustment	1,268,040	361,402
Increase (decrease) in accounts payable and other accrued expenses	(1,524,841)	2,444,960
Decrease in insurance loss reserve	(1,929,000)	(357,000)
Increase (decrease) in compensated absences	(253,504)	130,540
Increase in accrued payroll and related expenses	590,320	260,317
Increase in other post-employment benefits payable	10,823,172	10,550,225
Net cash used in operating activities	$ (91,317,817)	$ (87,953,868)

See accompanying notes to financial statements.

(1) Authorizing Legislation

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

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

(2) Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

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

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

(b) Management Estimates

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

(c) Cash and Cash Equivalents

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

(d) Allowance for Doubtful Accounts

Accounts receivable are expected to be fully collectible at June 30, 2016 and 2015, and accordingly, a provision for uncollectible accounts has not been established.

(e) Inventory

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

(f) Capital Assets

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

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

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

(g) Capital Contributions and Transfers

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

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

(h) Compensated Absences

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

(i) Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

	2016	2015
Deferred outflows of resources		
Pension contributions made after the measurement date	$ 2,508,122	$ 2,232,549
Differences between projected and actual earnings on pension plan investments	3,811,702	-
	$ 6,319,824	$ 2,232,549
Deferred inflows of resources		
Differences between projected and actual earnings on pension plan investments	$ 1,007,410	$ 706,367

(j) Revenues and Expenses

Passenger fare revenues are recorded as revenue at the time services are provided to passengers.

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

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

(k) New Accounting Standards Adopted

In Fiscal Year 2015, DTC adopted two new accounting standards. Both standards, which follow, were adopted as of June 30, 2014, the earliest period practical.

Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan. The adoption of GASB No. 68 resulted in a reduction of the net pension asset of $3,815,944 and a reduction of the net position by $3,815,944 as of June 30, 2014.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in November 2013. GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state and local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The adoption of GASB No. 71 resulted in the recognition of deferred outflows of $2,066,327, which resulted in an increase in net position of $2,066,327 as of June 30, 2014.

(3) Cash and Cash Equivalents

(a) Cash Management Policy

DTC follows the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the Delaware Pension Employee Retirement System, the Other Post-Employment Benefits Trust (the OPEB Trust), and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer in various pooled investment funds, except for those that, by specific authority, are under the control of other agencies or component units, as determined by 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 DTC.

All deposits of DTC are categorized as "DTC Accounts." The Policy is available on the Office of the State Treasurer's website at http://treasury.delaware.gov.

(b) Custodial Credit Risk

Deposits

Per the Policy, all State deposits are required by law to be collateralized by direct obligations, or obligations that are guaranteed by, the United States of America or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than B by Fitch, Inc. Bank Watch.

The Board has also determined that State demand deposits need not be collateralized, provided that any bank that holds these funds has, for any quarter during the most recent eight quarters, a return on average assets of 0.5% or greater and an average capital ratio (total equity to total assets) of 5% or greater.

If the bank does not meet either of these criteria, collateral must be pledged and shall consist of one or more of the following securities:

- U.S. government securities;
- U.S. government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- Securities of a political subdivision of the State with a Moody's Investors Service rating of A or better.

Additionally, the bank must ensure that those securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102% of the total average monthly ledger balance(s) (net of Federal Deposit Insurance Corporation (FDIC) limits) held in all accounts and ensure that the securities pledged as collateral are housed at the Federal Reserve Bank. Financial institutions must provide reports on a monthly basis to the State Treasurer's Office detailing the collateral pledged and provide a Call Report on a quarterly basis to the State Treasurer's Office.

As of Fiscal Years June 30, 2016 and 2015, the financial institutions maintaining DTC's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

Cash and Cash Equivalents

Cash and cash equivalents, as reported on the Statements of Net Position, are under the control of DTC. DTC maintains all of its cash and cash equivalents with one financial institution. The carrying amounts of DTC's deposits at June 30, 2016 and 2015 were $35,604,319 and $34,715,497, respectively, and the bank balances were $35,712,512 and $35,535,063, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The bank balances of $35,712,512 and $35,535,063 at June 30, 2016 and 2015, respectively, were covered up to $250,000 by the FDIC and the remainder by collateral held by DTC's Trustee, in DTC's name.

(c) Funding of Unpaid Loss Insurance Reserve Liability

Included in cash at June 30, 2016 and 2015 was $9,554,257 and $11,486,643, respectively, which will by utilized to fund the remaining loss insurance reserve liability (Note 12), net of escrow insurance deposits.

(4) Capital Assets

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

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

Capital asset activity for the Fiscal Year Ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset not being depreciated				
Land	$ 1,872,536	$ -	$ -	$ 1,872,536
Total capital asset not being depreciated	1,872,536	-	-	1,872,536
Capital assets being depreciated				
Buildings	56,753,109	1,109,241	-	57,862,350
Revenue vehicles	148,896,751	16,717,391	(25,963,115)	139,651,027
Service vehicles and equipment	8,485,263	149,543	-	8,634,806
Communication equipment	25,263,551	1,136,686	-	26,400,237
Furniture and fixtures	752,754	92	-	752,846
Bus signs and shelters	5,775,937	1,208,067	-	6,984,004
Total capital assets being depreciated	245,927,365	20,321,020	(25,963,115)	240,285,270
Less accumulated depreciation for				
Buildings	20,549,972	2,084,867	-	22,634,839
Revenue vehicles	77,523,193	14,013,603	(25,948,548)	65,588,248
Service vehicles and equipment	6,293,132	879,557	-	7,172,689
Communication equipment	17,732,299	1,678,382	-	19,410,681
Furniture and fixtures	530,689	38,348	-	569,037
Bus signs and shelters	2,966,793	436,828	-	3,403,621
Total accumulated depreciation	125,596,078	19,131,585	(25,948,548)	118,779,115
Total capital assets being depreciated, net	120,331,287	1,189,435	(14,567)	121,506,155
Total capital assets, net	$ 122,203,823	$ 1,189,435	$ (14,567)	$ 123,378,691

Depreciation expense for the Fiscal Years Ended June 30, 2016 and 2015 was $18,617,504 and $19,131,585, respectively.

(5) Long-Term Liabilities

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

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

Long-term liability activity for the Fiscal Year Ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 3,191,692	$ 130,540	$ -	$ 3,322,232	$ 1,127,251
Insurance loss reserve	12,011,000	5,180,731	(5,537,731)	11,654,000	2,485,340
Post-employment benefits	90,958,540	11,950,000	(1,399,775)	101,508,765	-
Long-term liabilities	$ 106,161,232	$ 17,261,271	$ (6,937,506)	$ 116,484,997	$ 3,612,591

(6) Union Contracts

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

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

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employees International Union AFL-CIO, Local 32. The term of the current CBA covers the period from January 1, 2013 through December 31, 2016.

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

(7) Defined Benefit Pension Plans

(a) Plan Descriptions

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

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

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

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

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

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

	2015	2014
Active members	272	256
Inactive members or beneficiaries currently receiving benefits	58	52
Terminated, vested members	63	53
Totals	393	361

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

	2015	2014
Active members	638	648
Inactive members or beneficiaries currently receiving benefits	163	155
Terminated, vested members	82	72
Totals	883	875

(b) Benefits

The DTC Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible to retire at age 55. All employees may retire at any age after 25 years of credited service or upon reaching the age of 62. If an employee terminates their employment after at least five years of credited service, but before normal retirement age, they may defer pension benefits until reaching retirement age. Employees who retire after reaching normal retirement age with at least five years of credited service are entitled to receive pension benefits equal to 70% of the participant's average earnings, offset by 100% of the primary insurance amount, reduced by 1/25 for each year of service less than 25, at the later of the participant's normal retirement date or actual retirement, computed to the nearest dollar. Benefits fully vest after five years of credited service. The disability retirement benefit of a participant shall be the participant's normal retirement benefit determined by computing their average earnings for the period ending on the last day that the employee worked prior to commencement of disability. Death benefits for a participant who dies while employed after completing five years of credited service is equal to 75% of the service pension to which the participant would have been eligible at age 65; for a former participant who dies after completing five years of service, 50% of the accrued benefit that would have been payable at age 65.

The DART Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible to receive pension benefits at age 65. All employees may retire at any age after 25 years of credited service or upon reaching the age of 65 with a minimum of five years of continuous service. If an employee terminates their employment after at least five years of continuous service, but before normal retirement age, they may defer pension benefits until reaching retirement age. Monthly benefits are calculated as $65 multiplied by the applicable years of service credited to the eligible participant. DTC may offset its contribution by the employer contributions made on behalf of a participant who terminated and withdrew their contributions. Upon the death of a retiree or active participant, a lump-sum payment will be made comprised of the aggregate of the participant's contributions that exceed the aggregate of the payments that have been made to the participant.

(c) Funding Policy

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

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

The contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2016 were $1,176,180 and $1,253,265, respectively. The contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2015 were $1,157,550 and $908,777, respectively.

(d) Net Pension Liability (Asset)

The DTC Plan's net pension liability (asset) for the Fiscal Years Ended June 30, 2016 and 2015 was determined by an actuarial valuation as of July 1, 2015 and 2014. Update procedures were used to roll forward the valuation results. There have been no changes between the measurement date of the net pension liability (asset) and DTC's report date that are expected to have a significant effect on the net pension liability (asset).

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

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

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

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocation Percentage
Domestic equity	5.20%	42.00%
International equity	5.20	16.00
Emerging equity	5.60	7.00
Core fixed income	3.00	25.00
Intermediate IG Corp	3.80	2.50
Bank loans	2.70	2.50
High yield	4.30	2.50
Emerging debt	4.80	2.50

The DART Plan's net pension liability (asset) for the calendar years ended December 31, 2015 and 2014 was determined by actuarial experience studies as of January 1, 2016 and 2015. There have been no changes between the measurement date of the net pension liability (asset) and the report date that are expected to have a significant effect on the net pension liability (asset). The total pension liability used to calculate the net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurements:

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

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

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocation Percentage
Domestic equity	5.20%	39.00%
International equity	5.20	15.00
Emerging equity	5.60	6.00
Core fixed income	3.00	28.00
Intermediate IG Corp	3.80	2.75
Bank loans	2.70	2.75
High yield	4.30	2.75
Emerging debt	4.80	2.75
Cash equivalents	0.80	1.00

(e) Discount Rate

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

(f) Changes in the Net Pension Liability (Asset)

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

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

Changes in DTC's net pension liability (asset) for the Fiscal Year Ended June 30, 2015 were as follows:

	DTC Plan			DART Plan			Totals		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**
Balances at 7/1/13 (DTC Plan) and 1/1/14 (DART Plan)	$ 20,057,790	$ 17,937,922	$ 2,119,868	$ 37,483,272	$ 39,495,181	$ (2,011,909)	$ 57,541,062	$ 57,433,103	$ 107,959
Changes for the year									
Service cost	840,320	-	840,320	1,765,669	-	1,765,669	2,605,989	-	2,605,989
Interest	1,483,009	-	1,483,009	2,675,064	-	2,675,064	4,158,073	-	4,158,073
Changes of benefit terms	-	-	-	1,029,691	-	1,029,691	1,029,691	-	1,029,691
Differences between expected and actual experience	-	-	-	4,126	-	4,126	4,126	-	4,126
Contributions - employer	-	1,157,550	(1,157,550)	-	908,777	(908,777)	-	2,066,327	(2,066,327)
Contributions - member	-	30,251	(30,251)	-	1,262,888	(1,262,888)	-	1,293,139	(1,293,139)
Net investment income	-	2,443,142	(2,443,142)	-	2,605,668	(2,605,668)	-	5,048,810	(5,048,810)
Benefit payments, including refunds of member contributions	(568,654)	(568,654)	-	(2,103,050)	(2,103,050)	-	(2,671,704)	(2,671,704)	-
Administrative expenses	-	(115,578)	115,578	-	(133,417)	133,417	-	(248,995)	248,995
Net changes	1,754,675	2,946,711	(1,192,036)	3,371,500	2,540,866	830,634	5,126,175	5,487,577	(361,402)
Balances at 6/30/14 (DTC Plan) and 12/31/14 (DART Plan)	$ 21,812,465	$ 20,884,633	$ 927,832	$ 40,854,772	$ 42,036,047	$ (1,181,275)	$ 62,667,237	$ 62,920,680	$ (253,443)

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

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

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

The sensitivity of the net pension liability to changes in the DTC Plan's discount rate as of June 30, 2014, and the DART Plan's discount rate as of December 31, 2014 were as follows:

	1% Decrease	Current Discount Rate	1% Increase
DTC Plan (7.5%)	$ 3,619,855	$ 927,832	$ (1,343,018)
DART Plan (7.0%)	$ 3,236,223	$ (1,181,275)	$ (4,978,492)

(h) Expected and Actual Experience Difference

The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources. The collective amount of the difference between expected and actual experience on the net pension liability for the Fiscal Year Ended June 30, 2015 and December 31, 2015 was $360,061. The collective amount of the difference between expected and actual experience on the net pension asset for the Fiscal Year Ended June 30, 2014 and December 31, 2014 was $0.

(i) Change in Assumptions

The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive Plan members, which is six years. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources. The collective amount of change in assumptions for the Fiscal Year Ended June 30, 2015 and December 31, 2015 was $0. The collective amount of change in assumptions for the Fiscal Year Ended June 30, 2014 and December 31, 2014 was $0.

(j) Difference between Projected and Actual Investment Earnings on Pension Plan Investments

The difference between the actual earnings on plan investments compared to the DTC Plan's expected rate of return of 7.5% and DART Plan's expected rate of return of 7.0% is amortized over a closed period of five years. The first year of amortization is recognized as pension expense with the remaining four years recognized as a deferred inflow of resources. The collective amount of the difference between projected and actual earnings on the net pension liability for the Fiscal Year Ended June 30, 2015 and December 31, 2015 was $(3,164,353). The collective amount of the difference between projected and actual earnings on the net pension asset for the Fiscal Year Ended June 30, 2014 and December 31, 2014 was $706,367.

(k) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

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

	2016	2015
Service cost	$ 842,642	$ 840,320
Interest	1,612,332	1,483,009
Member contributions	(57,524)	(30,251)
Difference between actual and expected experience	(37,096)	-
Administrative expenses	94,214	115,578
Projected earnings on plan investments	(1,585,475)	(1,364,227)
Amortization of investment return differences	(9,602)	(215,783)
Pension expense	$ 859,491	$ 828,646

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

	2016	2015
Service cost	$ 1,976,155	$ 1,765,669
Interest	2,924,733	2,675,064
Member contributions	(1,387,616)	(1,262,888)
Benefit changes	1,472,788	1,029,691
Difference between actual and expected experience	(11,154)	4,126
Administrative expenses	99,492	133,417
Projected earnings on plan investments	(2,864,345)	(2,762,433)
Amortization of investment return differences	746,745	-
Pension expense	$ 2,956,798	$ 1,582,646

For the Fiscal Year Ended June 30, 2016, DTC reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$ 2,508,122	$ -
Differences between projected and actual earnings on pension plan investments	3,811,702	647,349
Differences between expected and actual experience - pension plans	-	360,061
Totals	$ 6,319,824	$ 1,007,410

For the Fiscal Year Ended June 30, 2015, DTC reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$ 2,232,549	$ -
Differences between projected and actual earnings on pension plan investments	-	706,367
Totals	$ 2,232,549	$ 706,367

Amounts reported as deferred outflows of resources will be recognized as a reduction to the net pension liability in Fiscal Year 2017. Amounts reported as deferred inflows of resources will be recognized in pension expense as follows:

2017	$ 688,893
2018	688,893
2019	688,893
2020	904,674
2021	(48,250)
Thereafter	(118,811)

(l) Payable to the Plans

At June 30, 2016 and 2015, DTC reported payables of $28,548 and $3,116, respectively, for the outstanding amount of contributions due to the DTC Plan.

At June 30, 2016 and 2015, DTC reported payables of $859,532 and $64,441, respectively, for the outstanding amount of contributions due to the DART Plan.

(8) Other Post-Employment Benefits (OPEB)

(a) Plan Description

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

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

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

	2015	2014
Retirees and beneficiaries receiving benefits	230	148
Terminated plan members entitled to, but not yet receiving, benefits	67	31
Active eligible plan members	851	817
Total	1,148	996

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

Eligibility

Contract Employees:

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

Normal Retirement:

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

Benefits

During the Fiscal Years Ended June 30, 2016 and 2015, 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 OPEB Trust on a pay-as-you-go basis with additional funding provided on an ad-hoc basis. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee of, and is responsible for the financial management of the OPEB Trust. The cash basis costs associated with these benefits were $1,823,828 and $1,399,775 for the Fiscal Years Ended June 30, 2016 and 2015, 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 a participant reaches age 70, the coverage drops to $5,000. DTC must pay $0.265 per month per $1,000 of coverage for each employee.

(d) Annual OPEB Cost and Net OPEB Obligation

DTC's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Amounts "required" but not actually contributed to pay for these benefits are accumulated as part of the net OPEB obligation. The following table shows the components of DTC's annual OPEB cost, the amount actually contributed to the plan, and DTC's net OPEB obligation for the Fiscal Year Ended June 30, 2016:

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

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

Net OPEB obligation as of June 30, 2014	$ 90,958,540
Annual required contribution	12,868,000
Interest on net OPEB obligation	3,606,000
Adjustment to annual required contribution	(4,524,000)
Annual OPEB cost	102,908,540
Employer contributions	(1,399,775)
Net OPEB obligation as of June 30, 2015	$ 101,508,765

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

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
06/30/2016	$ 12,647,000	14.42 %	$ 112,331,937
06/30/2015	11,950,000	11.71	101,508,765
06/30/2014	16,748,000	7.69	90,958,540

(e) Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 2.1% funded. The actuarial accrued liability was $113,898,000, and the actuarial value of estimated assets was $2,342,000, resulting in a UAAL of $111,556,000. The covered payroll (annual payroll of active employees covered by the plan) was $44,602,886, and the ratio of the UAAL to the covered payroll was 250.1%.

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

The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(f) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a 4.0% investment rate of return, 3.0% payroll growth rate, a 2.4% inflation rate, and a healthcare cost trend rate based on the Society of Actuaries Long-Term Trend Model adjusted for the projected impact of the cadillac tax for pre-age 65 retirees. Sample trends are as follows:

2016	4.7%
2021	5.1
2026	5.0
2051	4.8

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

(9) Operating Leases

DTC has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require DTC to pay for maintenance and liability insurance costs. Rental expenses were $32,070 and $36,218 for the Fiscal Years Ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows as of the Fiscal Year Ended June 30, 2016:

2017	$ 1,800
2018	1,800
2019	1,800
2020	1,800
	$ 7,200

DTC had an operating lease agreement for transit vehicle tires, which expired on August 31, 2014. The lease agreement can be automatically renewed for two additional one-year periods, which extends the lease through August 31, 2016. On September 2, 2016, DTC entered into a new lease contract for a three-year period with option to extend the contract up to two times for a period of up to one year. Similar to the prior lease, the lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the Fiscal Years Ended June 30, 2016 and 2015, DTC incurred expenses related to this lease of $457,901 and $608,161, respectively.

(10) Economic Dependency

DTC's revenue from operating subsidies from State entities was approximately 71% and 67% of total revenue for the Fiscal Years Ended June 30, 2016 and 2015, respectively.

(11) Commitments and Contingencies

Litigation

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

(12) Risk Management

(a) Workers' Compensation Insurance

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

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

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

Subsequent to Fiscal Year 2003, DTC changed its coverage and was insured through Fiscal Year 2011 by the State. For Fiscal Years 2012 through 2014, DTC was insured through Liberty Mutual. In Fiscal Year 2015, DTC returned to being covered by the State. The premium for Fiscal Years 2016 and 2015 was calculated as $4.00 per $100 on gross wages and $9.00 per $100 on gross wages, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

(b) Auto Insurance

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

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

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

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

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

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

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

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

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

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

Auto Loss Reserve Remaining for Fiscal Year	2016	2015
2016	$ 3,414,000	$ -
2015	3,019,000	3,456,000
2014	2,196,000	3,355,000
2013	966,000	3,792,000
2012	-	742,000
2011	126,000	189,000
2010	-	116,000
2000	4,000	4,000
	$ 9,725,000	$ 11,654,000

Changes in the balance of total claim liabilities during Fiscal Years 2016 and 2015 were as follows:

Fiscal Year	Beginning Balance - July 1	Current Year Estimated Claims and Changes in Estimates	Actual Claim Payments	Ending Balance - June 30
2016	$ 11,654,000	$ 4,719,744	$ (6,648,744)	$ 9,725,000
2015	$ 12,011,000	$ 5,180,731	$ (5,537,731)	$ 11,654,000

(13) Transfers

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

	2016	2015
Amounts transferred as operating assistance	$ 85,420,600	$ 85,583,707
Amounts transferred as pass-through grant revenues	1,888,955	1,311,539
Amounts transferred as capital funding for purchase of capital assets	7,972,180	6,020,341
Total transfers from DelDOT	$ 95,281,735	$ 92,915,587

(14) Deficit on Unrestricted Net Position

DTC has a deficit on unrestricted net position of $93,777,824 and $86,840,452 as of June 30, 2016 and 2015, respectively. The deficit was caused by the implementation of GASB No. 45, which required DTC to calculate and record the annual unfunded required contribution related to post-employment benefits provided to retirees, which does not negate a current cash contribution. See the financial impact in Note (8). The deficit increased during Fiscal Year 2015 due to the implementation of GASB No. 68. See the financial impact in Note 2(k).

(15) Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to financial statements. All events and transactions have been evaluated through November 29, 2016, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Delaware Transit Corporation
Required Supplementary Information
June 30, 2016 and 2015

Statement of Changes in Net Pension Liability (Asset) and Related Ratios
(Dollar amounts in thousands)

The following provides an analysis of the changes in DTC's net pension liability for each of its plans for the Fiscal Year Ended June 30, 2016:

	DTC Plan 6/30/2015	DART Plan 12/31/2015
Total pension liability		
Service cost	$ 843	$ 1,976
Interest	1,612	2,925
Changes of benefit terms	-	1,473
Differences between expected and actual experience	(297)	(112)
Benefit payments, including refunds of member contributions	(629)	(2,134)
Net change in total pension liability	1,529	4,128
Total pension liability - beginning	21,812	40,855
Total pension liability - ending (a)	$ 23,341	$ 44,983
Plan fiduciary net position		
Contributions - employer	$ 1,176	$ 1,253
Contributions - members	58	1,388
Net investment income	555	(869)
Benefit payments, including refunds of member contributions	(629)	(2,134)
Administrative expense	(94)	(99)
Net change in plan fiduciary net position	1,066	(461)
Plan fiduciary net position - beginning	20,884	42,036
Plan fiduciary net position - ending (b)	$ 21,950	$ 41,575
Net pension liability (asset) - ending (a) - (b)	$ 1,391	$ 3,408
Plan fiduciary net position as a percentage of total pension liability	94.04 %	92.42 %
Covered-employee payroll	$ 12,261	$ 27,967
Net pension liability (asset) as a percentage of covered-employee payroll	11.34 %	12.19 %
Expected average remaining service years of all participants	8.0	8.8

Notes to Schedule

Benefit changes: None
Changes of assumptions: None

Delaware Transit Corporation
Required Supplementary Information
June 30, 2016 and 2015

Statement of Changes in Net Pension Liability (Asset) and Related Ratios
(Dollar amounts in thousands)

The following provides an analysis of the changes in DTC's net pension liability (asset) for each of its plans for the Fiscal Year Ended June 30, 2015:

	DTC Plan 6/30/2014	DART Plan 12/31/2014
Total pension liability		
Service cost	$ 840	$ 1,766
Interest	1,483	2,675
Changes of benefit terms	-	1,030
Differences between expected and actual experience	-	4
Benefit payments, including refunds of member contributions	(569)	(2,103)
Net change in total pension liability	1,754	3,372
Total pension liability - beginning	20,058	37,483
Total pension liability - ending (a)	$ 21,812	$ 40,855
Plan fiduciary net position		
Contributions - employer	$ 1,158	$ 909
Contributions - members	30	1,263
Net investment income	2,443	2,605
Benefit payments, including refunds of member contributions	(569)	(2,103)
Administrative expense	(116)	(133)
Net change in plan fiduciary net position	2,946	2,541
Plan fiduciary net position - beginning	17,938	39,495
Plan fiduciary net position - ending (b)	$ 20,884	$ 42,036
Net pension liability (asset) - ending (a) - (b)	$ 928	$ (1,181)
Plan fiduciary net position as a percentage of total pension liability	95.75 %	102.90 %
Covered-employee payroll	$ 12,099	$ 27,627
Net pension liability (asset) as a percentage of covered-employee payroll	7.67 %	(4.28)%
Expected average remaining service years of all participants	8.5	8.3

Notes to Schedule

Benefit changes:	None
Changes of assumptions:	None

Delaware Transit Corporation
Required Supplementary Information
June 30, 2016 and 2015

Schedule of Contributions

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
DTC Plan, as of June 30,										
Actuarially determined contribution	$ 1,176	$ 1,156								
Contributions in relation to the actuarially determined contribution	1,176	1,158								
Contribution deficiency (excess)	$ -	$ (2)	Information for FY2013 and earlier is not available.							
Covered-employee payroll	$ 12,261	$ 12,099								
Contributions as a percentage of covered-employee payroll	9.59 %	9.57 %								
DART Plan, as of December 31,										
Actuarially determined contribution	$ 857	$ 635	$ 773	$ 715	$ 598	$ 611	$ 859	$ 683	Information for FY2007 and earlier is not available.	
Contributions in relation to the actuarially determined contribution	1,253	908	1,250	1,080	1,074	1,082	1,063	996		
Contribution deficiency (excess)	$ (396)	$ (273)	$ (477)	$ (365)	$ (476)	$ (471)	$ (204)	$ (313)		
Covered-employee payroll	$ 27,627	$ 25,748	$ 24,788	$ 22,985	$ 22,847	$ 22,675	$ 22,072	$ 18,689		
Contributions as a percentage of covered-employee payroll	4.54 %	3.53 %	5.04 %	4.70 %	4.70 %	4.77 %	4.82 %	5.33 %		

Notes to Schedule

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

Methods and assumptions used to determine contribution rates for 2015:	*DTC Plan*	*DART Plan*
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll (closed), increasing 2.0% per year	Level percentage of pay
Remaining amortization period	20 years	15 years
Asset valuation method	Five-year market smoothed	Five-year market smoothed
Inflation	2.0%	2.0%
Salary increases	2.5%, including inflation	4.0%, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation	7.0%, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with generational projection by Scale AA	RP-2000 Blue Collar table without any future mortality improvements

Delaware Transit Corporation
Required Supplementary Information
June 30, 2016 and 2015

Schedule of Funding Status and Progress - OPEB Trust

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess (Deficit) of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Deficit) as a % of Covered Payroll ((a-b)/c)
07/01/2015	$ 2,342,000	$ 113,898,000	$ (111,556,000)	2.06 %	$ 44,602,886	(250.11)%
07/01/2014	2,189,000	104,434,000	(102,245,000)	2.10	42,716,806	(239.36)
07/01/2013	1,878,000	135,237,000	(133,359,000)	1.39	38,546,221	(345.97)

SUPPLEMENTARY INFORMATION

Delaware Transit Corporation
Schedule of Revenues and Expenses Compared to Budget
June 30, 2016 and 2015

	Budget (unaudited)	Actual	Favorable (Unfavorable)
Operating revenues			
Passenger fares	$ 19,751,207	$ 18,286,391	$ (1,464,816)
Advertising	550,000	493,075	(56,925)
Miscellaneous	1,050,000	1,113,808	63,808
Auxiliary transportation	600,000	933,563	333,563
Total operating revenues	21,951,207	20,826,837	(1,124,370)
Operating expenses before depreciation	114,497,280	120,701,330	(6,204,050)
Operating expenses in excess of operating revenues before depreciation	(92,546,073)	(99,874,493)	(7,328,420)
Nonoperating revenue (expenses)			
Federal operating assistance	7,125,473	7,671,890	546,417
Pass-through grant revenue	-	3,048,776	3,048,776
Pass-through grant expense	-	(5,375,069)	(5,375,069)
Excess of nonoperating revenues over expenses	7,125,473	5,345,597	(1,779,876)
Transfers from DelDOT for operating purposes			
State operating assistance	85,420,600	85,420,600	-
State pass-though grant revenue	-	1,888,955	1,888,955
Total transfers for operating purposes	85,420,600	87,309,555	1,888,955
Income before contributions and depreciation, net of gains on retirements on property and equipment	$ -	$ (7,219,341)	$ (7,219,341)

Delaware Transit Corporation
Schedule of Expenses by Mode - All Modes
Year Ended June 30, 2016

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ 25,951,384	$ -	$ -	$ -	$ 25,951,384
Other salaries	3,850,154	5,617,898	448,027	6,268,857	16,184,936
Fringe benefits	27,790,589	5,307,921	527,019	7,750,366	41,375,895
	57,592,127	10,925,819	975,046	14,019,223	83,512,215
Professional fees and services					
Professional and technical	7,873	-	13,321	2,681,283	2,702,477
Contract and maintenance	-	1,419,582	2,564,231	-	3,983,813
Security	-	-	67,038	448,866	515,904
Purchased transportation	13,125,964	-	-	-	13,125,964
Other	-	7,499	95,025	303,876	406,400
	13,133,837	1,427,081	2,739,615	3,434,025	20,734,558
Material and supplies					
Fuel and lubes	5,257,107	73,910	-	-	5,331,017
Tires and tubes	667,335	3,106	-	-	670,441
Other materials	102,801	3,339,793	210,606	325,076	3,978,276
	6,027,243	3,416,809	210,606	325,076	9,979,734
Office and miscellaneous					
Utilities	-	-	-	967,109	967,109
Insurance	-	-	-	3,369,576	3,369,576
Purchased transportation	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	83,839	83,839
Travel and meetings	-	-	-	1,534,039	1,534,039
Advertising	-	-	-	315,363	315,363
Facilities	-	-	102,384	-	102,384
Other	-	-	-	102,513	102,513
	-	-	102,384	6,372,439	6,474,823
Total expenses	$ 76,753,207	$ 15,769,709	$ 4,027,651	$ 24,150,763	$ 120,701,330

Delaware Transit Corporation
Schedule of Expenses by Mode - Fixed Route Directly Operated
Year Ended June 30, 2016

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ 12,724,759	$ -	$ -	$ -	$ 12,724,759
Other salaries	1,361,545	3,827,953	166,174	2,237,630	7,593,302
Fringe benefits	11,213,531	3,102,194	140,151	1,981,529	16,437,405
	25,299,835	6,930,147	306,325	4,219,159	36,755,466
Professional fees and services					
Professional and technical	2,184	-	4,815	778,012	785,011
Contract and maintenance	-	592,674	951,079	-	1,543,753
Security	-	-	24,233	162,252	186,485
Purchased transportation	-	-	-	-	-
Other	-	3,903	34,349	125,403	163,655
	2,184	596,577	1,014,476	1,065,667	2,678,904
Material and supplies					
Fuel and lubes	2,623,581	28,188	-	-	2,651,769
Tires and tubes	419,793	1,193	-	-	420,986
Other materials	44,225	2,408,572	76,128	124,226	2,653,151
	3,087,599	2,437,953	76,128	124,226	5,725,906
Office and miscellaneous					
Utilities	-	-	-	349,582	349,582
Insurance	-	-	-	1,249,783	1,249,783
Purchased transportation	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	30,305	30,305
Travel and meetings	-	-	-	554,513	554,513
Advertising	-	-	-	242,540	242,540
Facilities	-	-	37,009	-	37,009
Other	-	-	-	37,055	37,055
	-	-	37,009	2,463,778	2,500,787
Total expenses	$ 28,389,618	$ 9,964,677	$ 1,433,938	$ 7,872,830	$ 47,661,063

Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Directly Operated

Year Ended June 30, 2016

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ 13,226,625	$ -	$ -	$ -	$ 13,226,625
Other salaries	2,288,841	1,665,664	239,712	3,376,544	7,570,761
Fringe benefits	16,006,606	1,846,685	265,149	3,877,166	21,995,606
	31,522,072	3,512,349	504,861	7,253,710	42,792,992
Professional fees and services					
Professional and technical	3,295	-	7,266	1,667,945	1,678,506
Contract and maintenance	-	587,473	1,371,965	-	1,959,438
Security	-	-	36,566	244,835	281,401
Purchased transportation	-	-	-	-	-
Other	-	3,596	51,832	148,139	203,567
	3,295	591,069	1,467,629	2,060,919	4,122,912
Material and supplies					
Fuel and lubes	2,626,172	40,662	-	-	2,666,834
Tires and tubes	193,339	1,721	-	-	195,060
Other materials	50,551	767,772	114,876	169,708	1,102,907
	2,870,062	810,155	114,876	169,708	3,964,801
Office and miscellaneous					
Utilities	-	-	-	527,514	527,514
Insurance	-	-	-	1,802,857	1,802,857
Purchased transportation	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	45,730	45,730
Travel and meetings	-	-	-	836,748	836,748
Advertising	-	-	-	26,537	26,537
Facilities	-	-	55,846	-	55,846
Other	-	-	-	55,916	55,916
	-	-	55,846	3,295,302	3,351,148
Total expenses	$ 34,395,429	$ 4,913,573	$ 2,143,212	$ 12,779,639	$ 54,231,853

Delaware Transit Corporation

Schedule of Expenses by Mode - Fixed Route Purchased Transportation

Year Ended June 30, 2016

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ -	$ -	$ -	$ -	$ -
Other salaries	136,494	104,503	33,331	461,598	735,926
Fringe benefits	384,292	298,839	95,324	1,342,168	2,120,623
	520,786	403,342	128,655	1,803,766	2,856,549
Professional fees and services					
Professional and technical	2,394	-	894	144,421	147,709
Contract and maintenance	-	147,088	190,766	-	337,854
Security	-	-	4,498	30,119	34,617
Purchased transportation	2,577,716	-	-	-	2,577,716
Other	-	-	6,376	23,279	29,655
	2,580,110	147,088	202,534	197,819	3,127,551
Material and supplies					
Fuel and lubes	6,764	4,002	-	-	10,766
Tires and tubes	51,570	152	-	-	51,722
Other materials	6,120	154,695	14,132	23,060	198,007
	64,454	158,849	14,132	23,060	260,495
Office and miscellaneous					
Utilities	-	-	-	64,893	64,893
Insurance	-	-	-	250,679	250,679
Purchased transportation	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	5,626	5,626
Travel and meetings	-	-	-	102,933	102,933
Advertising	-	-	-	45,022	45,022
Facilities	-	-	6,870	-	6,870
Other	-	-	-	6,879	6,879
	-	-	6,870	476,032	482,902
Total expenses	$ 3,165,350	$ 709,279	$ 352,191	$ 2,500,677	$ 6,727,497

Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Purchased Transportation

Year Ended June 30, 2016

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ -	$ -	$ -	$ -	$ -
Other salaries	63,274	19,778	8,810	178,683	270,545
Fringe benefits	186,160	60,203	26,395	543,877	816,635
	249,434	79,981	35,205	722,560	1,087,180
Professional fees and services					
Professional and technical	-	-	346	55,905	56,251
Contract and maintenance	-	92,347	50,421	-	142,768
Security	-	-	1,741	11,660	13,401
Purchased transportation	1,120,290	-	-	-	1,120,290
Other	-	-	2,468	7,055	9,523
	1,120,290	92,347	54,976	74,620	1,342,233
Material and supplies					
Fuel and lubes	590	1,058	-	-	1,648
Tires and tubes	2,633	40	-	-	2,673
Other materials	1,905	8,754	5,470	8,082	24,211
	5,128	9,852	5,470	8,082	28,532
Office and miscellaneous					
Utilities	-	-	-	25,120	25,120
Insurance	-	-	-	66,257	66,257
Purchased transportation	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	2,178	2,178
Travel and meetings	-	-	-	39,845	39,845
Advertising	-	-	-	1,264	1,264
Facilities	-	-	2,659	-	2,659
Other	-	-	-	2,663	2,663
	-	-	2,659	137,327	139,986
Total expenses	$ 1,374,852	$ 182,180	$ 98,310	$ 942,589	$ 2,597,931

Delaware Transit Corporation

Schedule of Expenses by Mode - Rail

Year Ended June 30, 2016

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ -	$ -	$ -	$ -	$ -
Other salaries	-	-	-	14,402	14,402
Fringe benefits	-	-	-	5,626	5,626
	-	-	-	20,028	20,028
Professional fees and services					
Professional and technical	-	-	-	35,000	35,000
Contract and maintenance	-	-	-	-	-
Security	-	-	-	-	-
Purchased transportation	9,427,958	-	-	-	9,427,958
Other	-	-	-	-	-
	9,427,958	-	-	35,000	9,462,958
Material and supplies					
Fuel and lubes	-	-	-	-	-
Tires and tubes	-	-	-	-	-
Other materials	-	-	-	-	-
	-	-	-	-	-
Office and miscellaneous					
Utilities	-	-	-	-	-
Insurance	-	-	-	-	-
Purchased transportation	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	-	-
Travel and meetings	-	-	-	-	-
Advertising	-	-	-	-	-
Facilities	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Total expenses	$ 9,427,958	$ -	$ -	$ 55,028	$ 9,482,986

Santora CPA Group
Right, By Your Side

William A. Santora, CPA
John A. D'Agostino, CPA, MST
Heath N. Kahrs, CPA
Robert S. Smith, CPA
Stacey A. Powell, CPA, CFE, CICA

Robert Freed, Principal
Linda A. Pappajohn, Principal
Stephen M. Conyers, CPA, Principal

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Delaware Transit Corporation (DTC), a blended component unit of the Delaware Transit Authority, which is a component unit of the State of Delaware as of and for the Fiscal Year Ended June 30, 2016, and the related notes to financial statements, which collectively comprise DTC's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of DTC's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as Findings DTC-2016-1 and DTC-2016-3 in the accompanying Schedule of Findings to be material weaknesses.

Christiana Executive Campus ▲ 220 Continental Drive ▲ Suite 112 ▲ Newark, DE 19713-4309
Phone: (302) 737-6200 ▲ (800) 347-0116 ▲ Fax: (302) 737-3362
E-Mail: info@santoracpagroup.com ▲ www.santoracpagroup.com

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as Findings DTC-2016-2 and DTC-2016-4 in the accompanying Schedule of Findings to be significant deficiencies**.**

Compliance and Other Matters

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

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

We noted certain matters that we reported to management of DTC in a separate letter dated November 29, 2016.

DTC's Responses to Findings

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

Purpose of this Report

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

Santora CPA Group

November 29, 2016
Newark, Delaware

Delaware Transit Corporation
Schedule of Findings
June 30, 2016

Finding DTC-2016-1: Financial Reporting (Material Weakness)

Background

Throughout the year, DTC operates and records transactions primarily on the accrual basis of accounting using PeopleSoft. However, certain year-end accrual adjustments and reconciliations are performed annually in order to fully convert DTC's records to be in accordance with GAAP.

The year-end compilation of DTC's financial statements is complex and heavily reliant on manual adjustments to properly record all accruals and other non-routine transactions.

Condition

DTC management has the overall responsibility for the preparation and fair presentation of their financial statements in accordance with GAAP. DTC utilizes resources from another State agency to compile DTC's financial statements in accordance with GAAP. During our audit, we identified the following deficiencies in internal control over financial reporting:

- There was inadequate documentation provided with the compiled financial statements to demonstrate a reconciliation of DTC revenue, expense, asset, and liability details (a rollforward of the DTC trial balance, adding in the impact of compilation adjustments, and showing an adjusted total that agrees to financial statement line items). This type of reconciliation control is necessary to ensure that the financial statements are complete and accurate and reflect all activity of DTC for the fiscal year.

- The compiled financial statements were not adjusted for late accounting adjustments made by DTC management. Adjustments were made by DTC management to trade accounts receivable, accounts payable, operating revenues, and operating expenses. Therefore, several amounts reported in the statement of net position; statement of revenue, expenses, and changes in net position; and statement of cash flows were adjusted to reconcile to supporting audit documentation and client workpapers.

- Rideshare Program expenses of $441,604 were double counted in the compiled financial statements; therefore overstating pass-through grant expenses by that amount.

- Transfers from DelDOT were misstated by $925,533 in the compiled financial statements.

- The compiled financial statements had an unsupported adjustment of $1,384,409 to office and miscellaneous expenses and net position. An audit adjustment was recorded to reverse the unsupported adjustment with offsets to Transfers from DelDOT and pass-through grant expense to properly reflect the proper balances for each financial statement line item.

- The compiled financial statements lacked comparative fiscal year footnote disclosures where required, specifically as it relates to defined benefit pension plan disclosure reporting.

- Pension expense recorded in the financial statements does not reconcile to the actuary reports for the DTC and DART pension plans by $40,131.

Criteria

According to the National Council on Government Accounting Concept Statement No. 1, *Objectives of Financial Reporting*, "The overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance."

Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, defines financial reporting objectives as follows: "Financial reporting objectives address the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements…Reliable financial statements are a prerequisite to obtaining investor or creditor capital, and may be critical to the award of certain contracts or to dealing with certain suppliers. Investors, creditors, customers, and suppliers often rely on financial statements to assess management's performance and to compare it with peers and alternative investments. The term 'reliability' as used with financial reporting objectives involves the preparation of financial statements that are fairly presented in conformity with generally accepted or other relevant and appropriate accounting principles and regulatory requirements for external purposes."

The financial statements are the responsibility of management. A proper system of internal controls over financial reporting is essential in order to prevent, detect, and correct misstatements and to ensure that such information is useful in decision-making and evaluating managerial and departmental performance, as well as demonstrating accountability and stewardship. Controls must be properly designed, in place, and operating effectively to ensure that DTC's accounting and financial information is fairly stated in accordance with GAAP.

Cause

There is not an effective internal management review process to ensure that the financial statements are accurate, complete, and that presentation and disclosure is proper prior to submission for audit. Review by both management and the compilation staff was not performed at a sufficient level of precision to identify these significant misstatements.

All staff working on various aspects of the GAAP reporting process should have sufficient technical expertise to perform the work accurately and timely. Management relies heavily on the audit process to identify financial statement errors and to implement new accounting standards.

Effect

There were material misstatements to the compiled financial statements submitted for audit.

Recommendation

We recommend that management refine the process used to complete the draft DTC financial statements, notes to the financial statements, all significant GAAP adjustments, conversion to accrual adjustments, and prepare the necessary account reconciliations. The review process should include completion of a disclosure checklist to ensure that financial statements include all requirements of GAAP, as well as an evaluation of the reasonableness of individual financial statement line items and their related footnote disclosures by an individual with sufficient accounting and financial reporting experience and knowledge of the processes at DTC to detect and correct material inconsistencies and errors. Focus should be placed on financial statement presentation, including the completeness and accuracy of the financial statements.

The compilation package provided for audit should reflect final DTC trial balance amounts, with all client adjustments included, and should include a rollforward reconciliation of revenue, expense, asset, and liability details (a rollforward of the trial balance, adding in the impact of compilation adjustment journal entries, and showing an adjusted total that agrees to financial statement line items), and other sufficient workpapers to provide a complete audit trail from the trial balance to the amounts reported and disclosed in the financial statements.

DTC should consider filling existing vacancies in the Finance Department with an individual or contracting with a firm that has the background and experience in governmental financial reporting to allow DTC to prepare and/or adequately review their compilation package.

View of Responsible Officials

Many of the related issues due to this finding were a result of prolonged staff vacancies and turnover in key financial areas. This lead to DTC not being able close out the last three months of the financial statements on time as information from the Division of Accounting and the auditors were being requested. Therefore, as DTC completed the close out of the remaining three months, there were subsequent adjustments that needed to be made to the previously submitted trial balance and draft financial statements. In light of these issues, DTC management accepts SCG's recommendation and has taken the necessary action to ensure they are implemented. DTC has also taken steps to ensure the monthly close-out process will be completed on time to ensure all transactions are accounted for and included in the financial statements.

Finding DTC-2016-2: Notice of Personnel Action (NPA) Forms (Significant Deficiency)

Background

After an individual has been hired, an NPA form is completed by the Employment Department, and forwarded to the Human Resources Department. Attached to the NPA form is the DTC applicant job offer containing all necessary personnel and job information. The NPA is then entered into PeopleSoft by PeopleSoft Administrators. This information is then audited internally by the individual who did not enter the information; PeopleSoft Administrators alternate entering and auditing information monthly. NPA forms, including all necessary supporting personnel and job information, are audited by a second PeopleSoft Administrator prior to processing. All NPAs, for new employees or processed for changes in position, etc., are subject to the same audit process.

Delaware Transit Corporation
Schedule of Findings
June 30, 2016

Condition

In completing payroll internal control testing for a sample of 11 employees, we noted that three employee NPA forms were not audited by a second PeopleSoft Administrator, as required by DTC's internal control policies and procedures. Although the review control was not performed for those three forms, the personnel information included therein was properly reflected in the PeopleSoft system; therefore, all employee information tested was properly updated in the system based on comparison to completed NPA forms. It is noted by DTC management that procedures were implemented during the fourth quarter of Fiscal Year 2016 to ensure NPA forms are audited by a second PeopleSoft Administrator going forward.

Criteria

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

Cause

DTC did not provide proper oversight regarding the review of personnel information included in NPA forms.

Effect

Lack of secondary review to approve NPA form content could result in misstatements in personnel information in PeopleSoft.

Recommendation

We recommend that DTC management continue to ensure all personnel information included in NPA forms is audited internally by the individual who did not enter the information, as required by DTC's internal policies and procedures.

View of Responsible Officials

Due to lack of personnel during Fiscal Year 2016, the NPA audit process was not operating effectively. Since the fourth quarter of Fiscal Year 2016, the NPA audit process was reimplemented ensuring that all NPAs required an audit separate from the PeopleSoft Administrator who prepared and entered the information.

Finding DTC-2016-3: Management Review Process (Material Weakness)

Background

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

Condition

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

- The Controller reviews the monthly Accounts Payable to General Ledger reconciliation report prepared by the Staff Accountant II, but does not sign off on the report to evidence her review and approval of the reconciliation.

- Calculation and reported balances of accrued compensated balances as of June 30, 2016 was misstated by approximately $89,000 due to erroneous calculations of accrued sick wages. In addition the current portion of accrued compensated liability balance for sick, vacation, and personal time was understated by approximately $155,000. There was no evidence of review by an individual other than the preparer.

- Calculation and reported balance of Park and Ride revenue owed to DelDOT was understated by $129,610. There was no evidence this schedule was reviewed by an individual other than the preparer.

- During audit procedures, management recorded late adjustments to operating revenue, operating expense, assets, and liabilities. Specific accounts include auxiliary transportation revenue, non-transportation revenue, SEPTA expense, trade account receivable, accrued payroll, and accounts payable. Reconciliation and review of reconciliation should be performed timely in order to ensure appropriate reporting of monthly, quarterly, and annual financial statements.

- The balance owed to the Federal Transit Administration (FTA) was overstated by $407,180 upon reconciliation of schedules prepared by the DTC Grant Department to the trial balance. During Fiscal Year 2016, the FTA and DTC agreed that any amounts owed to the FTA would be applied as a reduction to future grants. The $407,180 noted above had not been properly applied to a grant received.

Criteria

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

Cause

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

Effect

Although some items such as the monthly bank reconciliations and Accounts Payable to General Ledger reconciliations were completely and accurately stated, lack of a management review control may and did result in incomplete or inaccurate amounts being reported.

Recommendation

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

View of Responsible Officials

Management agrees with SCG's recommendation. This finding was due to prolonged staff vacancies and turnover, and as a result, management had to prepare documents and perform tasks normally assigned to subordinate staff. Therefore, management was not able to effectively conduct secondary reviews as they had to prepare the work and ensure transactions are recorded and reported. Management has, and is in the process of, hiring additional qualified and experienced personnel to implement an effective management review process.

Finding DTC-2016-4: Parts Inventory Valuation (Significant Deficiency)

Background

DTC values inventory based on the Perpetual Weighted Average Cost (PWAC) method. Under this method, inventory values should only change based on the receipt of new items with disposals of inventory valued at the price per unit at time of disposal. Unit price and quantities are tracked within the PeopleSoft Inventory module. The system automatically updates the PWAC value upon receipts.

In addition to making adjustments to reconcile between part quantity recorded within the PeopleSoft system, adjustments must be made based on evaluation of the value of inventory items. Inventory is required to be valued at the lower of cost or market value in accordance with GAAP. DTC must evaluate its inventory on a regular basis to account for potential obsolescence.

Condition

- During inventory price testing, we observed a single item for which the PeopleSoft valuation calculation was inappropriate. In this case, due to an inventory adjustment, an item was returned to inventory at a higher value ($1,671) than when it was originally expensed ($971).

- During prior year testing, we noted that DTC uses an "express putaway" function within PeopleSoft, which replaces inventory in the system at a price of one cent per unit, instead of the appropriate inventory part value. We did not identify any instances of incorrect valuations attributable to the "express putaway" feature in our sample tested in Fiscal Year 2016; however, per discussions with the PeopleSoft Administrator (Inventory), SCG noted that the process is still in place.

- We noted one item in our price testing sample that was part of the original PeopleSoft conversion in 2001. The product has not been used (only internal movement within garage) since prior to 2001 and, therefore, is likely be obsolete.

Criteria

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

Cause

Lack of management review around valuation of inventory.

Effect

Inventory balances may be misstated.

Recommendation

Any time a positive inventory quantity adjustment is made, management should review valuation to ensure that the appropriate price is reflected in the system.

Valuations using the "express putaway" feature should also be reviewed to ensure that items are replaced in inventory at the appropriate value.

SCG noted that DTC is in the process of identifying and writing off obsolete inventory; this project was started in Fiscal Year 2016. We recommend that DTC develop a formal process to identify the population of remaining obsolete items in inventory that should be scrapped or otherwise written off.

View of Responsible Officials

DTC's parts inventory is managed and accounted for by the Inventory Operations Department. They are responsible for inventory valuation and entering the information into PeopleSoft. Finance relies on their inventory values and would only make changes if the inventory parts were charged to an incorrect department and/or vehicle. However, management agrees with SCG's recommendation and will work with Inventory Operations to ensure inventory is being appropriately valued in the system.