



**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

Delaware Department of Transportation
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Delaware Department of Transportation (Department of Transportation), which is an enterprise fund of the State of Delaware, which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1 to the financial statements, the financial statements present only the Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2013 and 2012, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedule of Bond Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Bond Coverage is the responsibility of management and was derived from and relate 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 Schedule of Bond Coverage is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Transportation's internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
December 17, 2013

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2013 and 2012

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal years ended June 30, 2013 and 2012.

Background

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

Financial Highlights

- Outstanding revenue bonds payable continued to decrease as the Department continues to limit long-term borrowing and decrease debt-service costs. Revenue bonds payable decreased to \$1,023.5 million at June 30, 2013 from \$1,106.7 million at June 30, 2012.
- Operating revenues increased by \$13.3 million to \$462.6 million during the fiscal year ended June 30, 2013, primarily from increased motor vehicle related revenues as a result of increased auto sales and increased toll revenues.
- Operating expenses decreased by \$58.7 million to \$541.1 million during the fiscal year ended June 30, 2013, primarily as a result of decreased capital preservation spending.
- Total capital assets (net of depreciation) increased \$120.2 million to \$4,155.1 million during fiscal 2013, primarily as a result of the US-301 and Turnpike/SR-1 interchange projects.

Overview of the Financial Statements

The Department is an agency of the State, and operates as an enterprise fund. Included within the Department is the Delaware Transportation Authority (the Authority), which is a blended component unit of the State. The Authority is made up of the activities of the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC).

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

The financial statements provide both long- and short-term information about the Department's overall financial status.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and additional information that further explains and supports the information in the financial statements.

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

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2013 and 2012

Financial Analysis of the Department

Statements of Net Position

The Department's total assets were \$4,562.6 million at June 30, 2013, compared to \$4,507.4 million at June 30, 2012, and \$4,509.9 million at June 30, 2011. Total liabilities were \$1,343.1 million at June 30, 2013, compared to \$1,418.3 million at June 30, 2012, and \$1,468.5 million at June 30, 2011. Net position at June 30, 2013 was \$3,219.5 million, compared to \$3,089.1 million at June 30, 2012, and \$3,041.4 million at June 30, 2011.

Department of Transportation's Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change</u> <u>2013 – 2012</u>	<u>Change</u> <u>2012 – 2011</u>
	(In millions of dollars)				
Current assets	\$ 318.9	\$ 378.2	\$ 485.9	\$ (59.3)	\$ (107.7)
Capital assets	4,155.1	4,034.9	3,943.6	120.2	91.3
Other noncurrent assets	88.6	94.3	80.4	(5.7)	13.9
Total assets	<u>\$ 4,562.6</u>	<u>\$ 4,507.4</u>	<u>\$ 4,509.9</u>	<u>\$ 55.2</u>	<u>\$ (2.5)</u>
Current liabilities	\$ 176.9	\$ 188.0	\$ 174.4	\$ (11.1)	\$ 13.6
Noncurrent liabilities	1,166.2	1,230.3	1,294.1	(64.1)	(63.8)
Total liabilities	<u>\$ 1,343.1</u>	<u>\$ 1,418.3</u>	<u>\$ 1,468.5</u>	<u>\$ (75.2)</u>	<u>\$ (50.2)</u>
Net position:					
Net investment in capital assets	\$ 3,142.8	\$ 2,956.3	\$ 2,840.6	\$ 186.5	\$ 115.7
Restricted	163.6	169.9	173.4	(6.3)	(3.5)
Unrestricted	(86.9)	(37.1)	27.4	(49.8)	(64.5)
Total net position	<u>\$ 3,219.5</u>	<u>\$ 3,089.1</u>	<u>\$ 3,041.4</u>	<u>\$ 130.4</u>	<u>\$ 47.7</u>

The decrease in current assets is attributed to smaller investment balances as a result of not issuing new debt during the year. For 2012, the decrease in current assets is attributed to the smaller cash and cash equivalent and investment balances, which declined as the Department expended the carry-over bond proceeds from fiscal year 2011. Also, no bond proceeds were added, as new debt issued during the fiscal year was solely for the purpose of refunding existing debt. The increase in capital assets for both 2013 and 2012 is primarily a result of increased spending for the U.S. 301 project and the Turnpike/SR-1 interchange project. The decrease in total liabilities was primarily the result of not issuing new debt during the year and the payment of existing bonds coupled with amortization of bond premiums. The decrease in total liabilities for fiscal year 2012 is primarily due to the bond refunding and from not issuing additional debt during the year.

For both 2013 and 2012, net investment in capital assets increased primarily as a result of capital spending for the U.S. 301 project and the Turnpike/SR-1 interchange project in excess of new debt issuances. Unrestricted net position decreased due to the decision to draw down existing cash balances instead of issuing new debt during the year.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2013 and 2012

Change in Net Position

The Department's net position at June 30, 2013 was \$3,219.5 million, compared to \$3,089.1 million at June 30, 2012, and \$3,041.4 million at June 30, 2011. Operating revenues were \$462.6 million, \$449.3 million, and \$445.0 million in fiscal years 2013, 2012, and 2011, respectively. Total operating expenses were \$541.1 million, \$599.8 million, and \$547.1 million in fiscal years 2013, 2012, and 2011, respectively.

Changes in the Department of Transportation's Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change 2013 – 2012</u>	<u>Change 2012 – 2011</u>
	(In millions of dollars)				
Operating revenues	\$ 462.6	\$ 449.3	\$ 445.0	\$ 13.3	\$ 4.3
Operating expenses:					
Operating expenses	515.8	576.8	522.6	(61.0)	54.2
Depreciation	25.3	23.0	24.5	2.3	(1.5)
Total operating expenses	<u>541.1</u>	<u>599.8</u>	<u>547.1</u>	<u>(58.7)</u>	<u>52.7</u>
Operating loss	(78.5)	(150.5)	(102.1)	72.0	(48.4)
Nonoperating revenues, net	<u>172.4</u>	<u>161.5</u>	<u>151.8</u>	<u>10.9</u>	<u>9.7</u>
Income before transfers	93.9	11.0	49.7	82.9	(38.7)
Transfers, net	<u>36.5</u>	<u>36.7</u>	<u>22.0</u>	<u>(0.2)</u>	<u>14.7</u>
Change in fund net position	130.4	47.7	71.7	82.7	(24.0)
Total fund net position – beginning of year	<u>3,089.1</u>	<u>3,041.4</u>	<u>2,969.7</u>	<u>47.7</u>	<u>71.7</u>
Total fund net position – end of year	<u>\$ 3,219.5</u>	<u>\$ 3,089.1</u>	<u>\$ 3,041.4</u>	<u>\$ 130.4</u>	<u>\$ 47.7</u>

The increase in operating revenues from 2012 to 2013 is primarily attributed to increased toll revenues and an increase in motor vehicle and related revenues as a result of increased auto sales.

The decrease in total operating expenses from 2012 to 2013 was primarily due to decreased maintenance, preservation, and repair costs due to a smaller paving and rehabilitation program in 2013 as compared to 2012, when the program was accelerated. The increase in total operating expenses from 2011 to 2012 is primarily a result of increased capital preservation spending during the year, as well as increased professional fees.

Nonoperating revenues increased for fiscal years 2013 and 2012 as a result of increased federal grant revenues and reduced interest expense.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2013 and 2012

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013, the Department had invested \$4,335.8 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2013 totaled \$4,155.1 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$120.2 million over June 30, 2012. The most significant contributors to this increase were the Turnpike/SR-1 interchange project and the U.S. 301 project. As of June 30, 2012, the Department had invested \$4,202.9 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2012 totaled \$4,034.9 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$91.3 million over June 30, 2011. The most significant contributors to this increase were the Turnpike/SR-1 interchange project and the U.S. 301 project.

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

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

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

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

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

Of the Department's 1,601 bridge structures that were rated in 2013, 71.9% received a good or better BCR rating, 20.9% were rated fair, and 7.2% received a substandard rating. Of the 7,614,980 square feet of bridge deck that was rated, 91.4% or 6,956,457 square feet received an OPC condition rating of good or better, 8.5% received a fair rating, and 0.1% received a substandard deck rating. In 2011, 4,378 centerline miles were rated; 95.8% received a fair or better OPC rating and 4.2% received a poor rating. No roadway condition assessment was performed for 2012 or 2013.

The estimate to maintain and preserve the Department's infrastructure was \$185.4 million, \$243.6 million, and \$259.4 million for 2013, 2012, and 2011, respectively. The actual expenditures were \$233.8 million, \$285.9 million, and \$249.0 million for 2013, 2012, and 2011, respectively.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2013 and 2012

Debt Administration

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

At June 30, 2013, the Authority had \$1,023.5 million in revenue bonds outstanding, a 7.5% decrease from June 30, 2012. On June 30, 2013 and 2012, the Authority had a total of \$235.6 million in authorized but unissued revenue bonds. No new bonds were issued during 2013. Of the 11 outstanding Senior Bond Issues, all bonds are rated AA+ and Aa2 by Standard and Poor's and Moody's Investors Services, respectively. The GARVEE Bond, 2010 Series is rated AA and Aa3 by Standard and Poor's and Moody's Investors Services, respectively. At June 30, 2012, the Authority had \$1,106.7 million in revenue bonds outstanding, an 8.6% decrease from June 30, 2011. During 2012, the Authority issued \$222.9 million of Transportation System Senior Revenue Bonds, 2012 Series, to provide for an advance refunding of \$250.7 million prior Transportation System Senior Revenue Bonds.

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

Contacting the Department's Financial Management

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

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 45,541,372	\$ 43,307,436
Restricted	30,960,317	7,259,851
Treasurer's Office investment pool	4,597,127	1,936,712
Investments - at fair value:		
Unrestricted	64,902,278	94,649,196
Restricted	107,926,887	171,577,442
Accrued interest receivable	535,890	643,165
Accounts receivable:		
Trade	17,449,225	16,519,547
Federal grant	27,058,232	22,399,900
Inventory	18,425,327	18,528,054
Bond issuance costs - net of accumulated amortization	307,845	319,747
Escrow insurance deposits	181,562	316,960
Prepaid expenses	1,044,414	786,166
Total current assets	318,930,476	378,244,176
Noncurrent assets:		
Capital assets, not depreciable:		
Land	283,875,945	276,760,943
Infrastructure	3,670,250,132	3,564,346,941
Construction in progress	3,140,333	2,486,712
Capital assets, depreciable:		
Buildings and improvements	109,638,374	104,836,998
Fixtures and equipment	268,899,951	254,506,499
	4,335,804,735	4,202,938,093
Less: accumulated depreciation	180,690,655	168,084,848
Capital assets	4,155,114,080	4,034,853,245
Investments - at fair value:		
Unrestricted	13,552,718	25,809,386
Restricted	69,569,136	63,112,858
Bond issuance costs - net of accumulated amortization and current portion	2,072,839	2,373,959
Prepaid pension - restricted	3,312,091	3,019,873
Total noncurrent assets	4,243,620,864	4,129,169,321
Total assets	\$ 4,562,551,340	\$ 4,507,413,497

See accompanying notes to financial statements.

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Statements of Net Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable and other accrued expenses	\$ 33,448,125	\$ 32,997,048
Due to State General Fund	—	4,525,925
Accrued payroll	6,001,918	6,556,922
Compensated absences payable	5,036,771	6,840,570
Customer toll deposits	13,785,582	12,335,843
Pollution remediation obligations	1,246,700	891,200
Escrow deposit	6,122,032	3,952,213
Insurance loss reserve	2,454,975	2,922,308
Deferred revenue	592,565	649,030
General obligation bonds payable	142,866	195,189
Revenue bonds payable – net of deferred amounts on refunding	72,543,651	80,537,770
Bond issue premium – net of accumulated amortization	11,795,497	12,872,769
Interest payable	23,696,349	22,727,471
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Total current liabilities	176,867,031	188,004,258
Noncurrent liabilities:		
Compensated absences – net of current portion	9,190,489	9,992,431
Return of federal funds	—	2,999,719
Insurance loss reserve – net of current portion	7,392,025	6,086,692
Post-employment benefits payable	168,276,966	143,670,275
Pollution remediation obligations – net of current portion	2,758,000	4,447,700
General obligation bonds payable – net of current portion	103,426	246,292
Revenue bonds payable – net of deferred amounts on refunding and current portion	934,587,646	1,007,131,297
Bond issue premium – net of accumulated amortization and current portion	43,894,545	55,690,042
	<hr/>	<hr/>
Total noncurrent liabilities	1,166,203,097	1,230,264,448
Total liabilities	1,343,070,128	1,418,268,706
Net position:		
Net investment in capital assets	3,142,840,718	2,956,316,018
Restricted	163,538,916	169,953,696
Unrestricted	(86,898,422)	(37,124,923)
	<hr/>	<hr/>
Total net position	3,219,481,212	3,089,144,791
Total liabilities and net position	<u>\$ 4,562,551,340</u>	<u>\$ 4,507,413,497</u>

See accompanying notes to financial statements.

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

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

Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Pledged revenue:		
Turnpike revenues	\$ 120,089,261	\$ 117,132,849
Motor vehicle and related revenue	265,608,877	258,667,127
Total pledged revenue	385,698,138	375,799,976
Toll revenue – Delaware SR-1	46,223,585	44,889,227
Passenger fares	14,589,391	14,573,514
Miscellaneous	16,098,062	14,007,743
Total operating revenues	462,609,176	449,270,460
Operating expenses:		
Maintenance, preservation, and repairs	130,046,485	183,670,800
Occupancy expenses	8,451,652	8,370,850
Office expense	16,449,731	8,781,419
Payroll expense	140,877,375	152,156,787
Professional fees	124,482,692	124,660,621
Supplies and other	14,732,858	20,674,759
Vehicle operations	80,794,618	78,437,682
Depreciation	25,332,381	23,025,545
Total operating expenses	541,167,792	599,778,463
Operating loss	(78,558,616)	(150,508,003)
Nonoperating revenues (expenses):		
Pledged revenue – income from investments	2,220,035	3,159,782
Income from investments	64,592	62,028
Net increase (decrease) in the fair value of investments	(2,893,203)	807,018
Bad debt recovery	853,488	820,566
Federal grant revenue	212,386,561	200,669,926
Grant expenses	(1,994,646)	(2,276,838)
Gain on asset disposal	1,018,401	307,734
Interest expense	(39,224,203)	(42,070,709)
Excess of nonoperating revenues over nonoperating expenses	172,431,025	161,479,507
Income before transfers	93,872,409	10,971,504
Transfers to State General Fund	(5,000,000)	(5,281,413)
Transfers to other State agencies	(1,793,392)	(1,229,290)
Transfers from State General Fund	43,257,404	43,246,922
Change in fund net position	130,336,421	47,707,723
Total fund net position – beginning of year	3,089,144,791	3,041,437,068
Total fund net position – end of year	\$ 3,219,481,212	\$ 3,089,144,791

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Operating receipts	\$ 459,187,713	\$ 445,180,889
Payments to suppliers	(375,216,753)	(407,817,538)
Payments to employees	(119,723,647)	(122,416,050)
Insurance claims paid	(3,848,013)	(2,906,689)
Other receipts	2,435,320	2,248,966
Net cash used in operating activities	(37,165,380)	(85,710,422)
Cash flows from noncapital financing activities:		
Transfers from State General Fund	43,257,404	43,246,922
Transfers to State General Fund	(5,000,000)	(5,281,413)
Transfers to other State agencies	(1,793,392)	(1,229,290)
Net cash provided by noncapital financing activities	36,464,012	36,736,219
Cash flows from capital and related financing activities:		
Payments of revenue bond principal	(83,230,000)	(76,320,000)
Payment to escrow agent for refunding of revenue bonds	—	(270,163,203)
Proceeds from revenue bond sale	—	222,870,000
Payments of general obligation bond principal	(195,189)	(346,503)
Premium from revenue bond sale	—	42,290,886
Federal reimbursement of debt service	10,880,513	12,075,650
Proceeds from capital grants	194,853,070	185,409,944
Bond issuance costs from revenue bond sale	(7,984)	(525,984)
Acquisition of capital assets	(146,610,351)	(115,201,162)
Proceeds from sale of land and equipment	2,035,536	1,262,051
Payments of interest	(48,114,858)	(56,565,663)
Net cash used in capital and related financing activities	(70,389,263)	(55,213,984)
Cash flows from investing activities:		
Purchase of investments	(369,264,910)	(3,253,406,589)
Proceeds from sale of investments	465,569,570	3,287,877,443
Collection on loans previously written off	853,488	820,566
Escrow insurance deposits	135,398	(40,993)
Interest received	2,391,902	3,273,586
Net cash provided by investing activities	99,685,448	38,524,013
Net increase (decrease) in cash and cash equivalents	28,594,817	(65,664,174)
Cash and cash equivalents – beginning of year	52,503,999	118,168,173
Cash and cash equivalents – end of year	\$ 81,098,816	\$ 52,503,999

See accompanying notes to financial statements.

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Net operating loss	\$ (78,558,616)	\$ (150,508,003)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	25,332,381	23,025,545
Changes in assets and liabilities:		
Increase in accounts receivable	(929,678)	(2,489,635)
(Increase) decrease in inventory	102,727	(1,428,446)
Increase in prepaid expenses	(258,248)	(101,949)
Increase in prepaid pension	(292,218)	(415,455)
Increase in accounts payable and other accrued expenses	451,077	8,572,107
Increase (decrease) in due to State General Fund	(4,525,925)	4,525,925
Decrease in accrued payroll and related expenses	(3,160,745)	(2,178,981)
Increase (decrease) in deferred revenue	(56,465)	649,030
Increase (decrease) in other accrued expenses	1,457,839	(1,277,483)
Increase (decrease) in pollution remediation obligation	(1,334,200)	3,581,750
Increase in post-employment benefits	24,606,691	32,335,173
Net cash used in operating activities	\$ (37,165,380)	\$ (85,710,422)

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements

June 30, 2013 and 2012

(1) Organization

The Delaware Department of Transportation (the Department) is a major fund of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. In addition, the Department has overall responsibility for maintenance and operation of roadways and bridges that fall under its jurisdiction. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the activities of the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC). The Authority is a body politic and corporate whose actions are overseen by the Secretary of Transportation (the Secretary), the Director of the Office of Financial Management and Budget, and the Administrator of the Trust Fund. The Authority's principal role is to provide financing to the Department and as a result is a blended component unit of the State and is included in these financial statements on a blended basis.

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

The trust agreements in effect are the Motor Fuel Tax Revenue Bond Trust Agreement (the Motor Fuel Tax Agreement), dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement (the Trust Agreement), dated August 1, 1988, as supplemented. The Trust Agreement is a bond indenture, intended to ensure payment to bondholders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department. The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in fiscal year 1995 as a subsidiary public benefit corporation of the Authority. With approval of the Governor, the Secretary appoints the Director of DTC, who serves at the pleasure of the Secretary. The Authority provides significant operational subsidies to DTC annually. DTC

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements

June 30, 2013 and 2012

is authorized to operate the public transportation system within the State, and provides services directly to the public. As a result, it is a discrete component unit of the Authority. Financial statements for DTC and the Trust Fund are available by writing to the Department of Transportation, 800 Bay Road, Dover, Delaware 19903.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Department operates as an enterprise fund. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

(b) Cash and Cash Equivalents

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

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

(c) Allowance for Doubtful Accounts

Accounts receivable are expected to be fully collectible at June 30, 2013 and 2012, and accordingly, a provision for uncollectible accounts has not been established.

(d) Inventory

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

(e) Investments

Investments are recorded at their fair value.

(f) Management Estimates

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

(g) Capital Assets

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

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements

June 30, 2013 and 2012

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

Capital assets are defined by DTC as all assets purchased with State and federal grant funds, as well as any asset with a cost greater than \$5,000 purchased with operating funds.

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

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

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

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

	<u>Years</u>
Assets:	
Buildings and improvements	5 – 40
Fixtures and equipment	3 – 40

(h) *Compensated Absences*

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Department and its employees are accounted for in the period in which such services are rendered or such events take place.

STATE OF DELAWARE
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Notes to Financial Statements

June 30, 2013 and 2012

(i) Bond Issue Premiums/Discounts

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Net amortization resulted in \$12,551,763 and \$9,706,037 of reductions of interest expense in 2013 and 2012, respectively.

(j) Revenues and Expenses

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

(k) New Accounting Standards Adopted

In fiscal year 2013, the Department adopted three new accounting standards, as follows:

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, in November 2010. This statement is an amendment of GASB Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 61 amends certain requirements for inclusion of component units in the reporting government's financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. It also requires consolidation, as a blended component unit, organizations that serve as financing vehicles for the primary government. The implementation of this standard had no impact on the presentation of the Department's financial statements other than additional disclosure regarding the blended activities of the Authority.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. There was no impact on the financial statements from implementing this standard.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Department's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Balance Sheet" to "Statement of Net Position".

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013 and 2012

(3) Cash and Investments

(a) Cash Management Policy and Investment Guidelines

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

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2013 and 2012, investments of the Department are primarily in U.S. government securities, U.S. government agency securities, and commercial paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Agreement.

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

(b) Custodial Credit Risk

Deposits

The Department's cash and cash equivalents held at external financial institutions at June 30, 2013 and 2012 were \$76,501,689 and \$50,567,287, respectively, and the bank balances were \$76,070,444 and \$51,308,606, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, \$75,272,910 and \$51,052,680 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2013 and 2012, respectively. The remaining bank balances of \$797,534 and \$255,926 were neither insured nor collateralized at June 30, 2013 and 2012, respectively.

As of June 30, 2013 and 2012, the Department also had \$4,597,127 and \$1,936,712, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the Treasurer's Office. The Treasurer's Office pool includes deposit accounts and short- and long-term investments. The deposits held in the State Treasurer's investment pool are allocated to the Department, but the custodial credit risk cannot be categorized for these deposits.

Investments

Investments of the Department are stated at fair value. At June 30, 2013 and 2012, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name.

**STATE OF DELAWARE
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Notes to Financial Statements

June 30, 2013 and 2012

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Department accounts, at the time of purchase, shall not exceed 10 years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following table presents a listing of directly held investments and related maturities at June 30, 2013.

	<u>Fair value</u>	<u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>11 – 15</u>
Investment type:					
U.S. government securities	\$ 40,437,244	\$ 5,646,683	\$ 9,931,404	\$ 24,859,157	\$ —
U.S. government agency securities	131,849,069	84,012,406	22,029,494	23,949,609	1,857,560
Commercial paper	83,664,706	83,170,076	494,630	—	—
	<u>\$ 255,951,019</u>	<u>\$ 172,829,165</u>	<u>\$ 32,455,528</u>	<u>\$ 48,808,766</u>	<u>\$ 1,857,560</u>

The following table presents a listing of directly held investments and related maturities at June 30, 2012.

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

Credit Risk

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

STATE OF DELAWARE
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Notes to Financial Statements

June 30, 2013 and 2012

In addition, the Trust Agreement limits investments in commercial paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in commercial paper of \$83,664,706 and \$172,204,705 at June 30, 2013 and 2012, respectively. All commercial paper held matures within five years and is rated in accordance with the Trust Agreement. The investments in U.S. Government and Government Agency Securities are rated at Aaa with Moody's and AA+ with Standard & Poor's.

Investments in Excess of 5%

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

The Policy provides that the purchase of securities cannot exceed the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

- A. U.S. government - no restrictions.
- B. Government agency - 50% total; 20% in any one agency.
- C. Certificates of deposit, time deposits, and bankers acceptances - 50% total; 5% in any one issuer.
 - 1. Domestic - No additional restrictions.
 - 2. Nondomestic - 25%, 5% in any one issuer.
 - 3. Delaware domiciled - Not more than the lesser of \$10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)
- D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.
 - 1. Domestic - No additional restrictions.
 - 2. Nondomestic - 25%; 5% in any one issuer.
- E. Repurchase agreements - 50% total.
- F. Reverse repurchase agreements - 25% total.
- G. Money market funds - 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the account in the Delaware Local Government Investment Pool

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements

June 30, 2013 and 2012

(DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

- H. Canadian treasuries - 25% total; 10% in any one agency.
- I. Canadian agency securities - 25% total; 10% in any one agency.
- J. Mortgage-backed and asset-backed securities - 10% total (when combined with asset-backed securities and trust certificates, if applicable).
- K. Municipal obligations - 5% in any one issuer.
- L. Guaranteed investment contracts - Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.
- M. Asset-backed securities and trust certificates - 10% total (when combined with mortgage-backed and asset-backed securities, if applicable).

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2013:

Federal National Mortgage Association	\$ 67,488,697	26%
Federal Home Loan Mortgage Corporation	49,666,400	19
United States Treasury	40,437,244	16

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

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

Investment Commitments

The Department has made no investment commitments as of June 30, 2013.

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013 and 2012

(4) Accounts Receivable

Accounts and loans receivable at June 30, 2013 and 2012 are detailed as follows:

	2013	2012
Receivables:		
Interest	\$ 535,890	\$ 643,165
Trade	17,449,225	16,519,547
Federal grant	27,058,232	22,399,900
Total receivables	45,043,347	39,562,612
Allowance for doubtful accounts	—	—
Total receivables – net of allowance	\$ 45,043,347	\$ 39,562,612
Amounts not scheduled for collection during the subsequent year	\$ —	\$ —

(5) Capital Assets

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

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	\$ 276,760,943	\$ 7,115,002	\$ —	\$ 283,875,945
Infrastructure	3,564,346,941	105,903,191	—	3,670,250,132
Construction in progress	2,486,712	653,621	—	3,140,333
Total capital assets not being depreciated	3,843,594,596	113,671,814	—	3,957,266,410
Capital assets being depreciated:				
Buildings and improvements	104,836,998	4,801,376	—	109,638,374
Fixtures and equipment	254,506,499	28,137,161	(13,743,709)	268,899,951
Total capital assets being depreciated	359,343,497	32,938,537	(13,743,709)	378,538,325
Less accumulated depreciation for:				
Buildings and improvements	31,111,852	3,254,988	—	34,366,840
Fixtures and equipment	136,972,996	22,077,393	(12,726,574)	146,323,815
Total accumulated depreciation	168,084,848	25,332,381	(12,726,574)	180,690,655
Total capital assets being depreciated, net	191,258,649	7,606,156	(1,017,135)	197,847,670
Capital assets, net	\$ 4,034,853,245	\$ 121,277,970	\$ (1,017,135)	\$ 4,155,114,080

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013 and 2012

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

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

Depreciation expense for fiscal years 2013 and 2012 was \$25,332,381 and \$23,025,545, respectively.

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013 and 2012

(6) Changes in Long-Term Liabilities

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Revenue bonds:					
Revenue bonds, gross	\$ 1,106,735,000	\$ —	\$ (83,230,000)	\$ 1,023,505,000	\$ 75,205,000
Deferred amount on refunding	<u>(19,065,933)</u>	<u>—</u>	<u>2,692,230</u>	<u>(16,373,703)</u>	<u>(2,661,349)</u>
Revenue bonds, net	1,087,669,067	—	(80,537,770)	1,007,131,297	72,543,651
General obligation bonds	441,481	—	(195,189)	246,292	142,866
Bond issue premium, net of accumulated amortization	68,562,811	—	(12,872,769)	55,690,042	11,795,497
Insurance loss reserve	9,009,000	4,686,013	(3,848,013)	9,847,000	2,454,975
Post-employment benefits	143,670,275	39,717,987	(15,111,296)	168,276,966	—
Pollution remediation obligations	5,338,900	—	(1,334,200)	4,004,700	1,246,700
Return of federal funds	2,999,719	—	(2,999,719)	—	—
Compensated absences	<u>16,833,001</u>	<u>177,785</u>	<u>(2,783,526)</u>	<u>14,227,260</u>	<u>5,036,771</u>
Long-term liabilities	<u>\$ 1,334,524,254</u>	<u>\$ 44,581,785</u>	<u>\$ (119,682,482)</u>	<u>\$ 1,259,423,557</u>	<u>\$ 93,220,460</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Revenue bonds:					
Revenue bonds, gross	\$ 1,210,880,000	\$ 222,870,000	\$ (327,015,000)	\$ 1,106,735,000	\$ 83,230,000
Deferred amount on refunding	<u>(1,628,306)</u>	<u>(18,321,871)</u>	<u>884,244</u>	<u>(19,065,933)</u>	<u>(2,692,230)</u>
Revenue bonds, net	1,209,251,694	204,548,129	(326,130,756)	1,087,669,067	80,537,770
General obligation bonds	787,984	—	(346,503)	441,481	195,189
Bond issue premium, net of accumulated amortization	37,402,559	42,290,886	(11,130,634)	68,562,811	12,872,769
Insurance loss reserve	7,075,000	4,840,689	(2,906,689)	9,009,000	2,922,308
Post-employment benefits	111,335,102	46,008,516	(13,673,343)	143,670,275	—
Pollution remediation obligations	1,757,150	3,581,750	—	5,338,900	891,200
Return of federal funds	5,999,719	—	(3,000,000)	2,999,719	—
Compensated absences	<u>14,351,198</u>	<u>2,719,520</u>	<u>(237,717)</u>	<u>16,833,001</u>	<u>6,840,570</u>
Long-term liabilities	<u>\$ 1,387,960,406</u>	<u>\$ 303,989,490</u>	<u>\$ (357,425,642)</u>	<u>\$ 1,334,524,254</u>	<u>\$ 104,259,806</u>

(7) Return of Federal Funds

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

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The Department has agreed upon a payment plan with FHWA where all of the funds will be returned by the end of fiscal year 2015 in accordance with the years of obligation. The first payment of \$2 million was paid in June 2011, and the second payment of \$3 million was paid in June 2012. The balance of \$2,999,719 was paid in June 2013.

(8) General Obligation Bonds Outstanding

General obligation bonds outstanding at June 30, 2013 and 2012 are detailed as follows:

<u>Sale #</u>	<u>Description and interest rates</u>	<u>Maturity date (fiscal year)</u>	<u>Balance outstanding June 30,</u>	
			<u>2013</u>	<u>2012</u>
194	GO 2005B, 5.00%	2015	\$ 231,276	\$ 358,598
191	GO + Refunding 2004A, 3.00% – 6.00%	2014	15,016	30,033
185	GO + Refunding 2002A, 4.00% – 5.25%	2013	—	52,850
	Totals		246,292	441,481
	Less: current portion		142,866	195,189
	Long-term portion		\$ <u>103,426</u>	\$ <u>246,292</u>

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

The annual requirement to amortize all general obligation bonds payable as of June 30, 2013 was as follows:

	<u>Principal maturity</u>	<u>Interest maturity</u>	<u>Total</u>
Year ending June 30,:			
2014	\$ 142,866	\$ 9,777	\$ 152,643
2015	103,426	4,137	107,563
	\$ <u>246,292</u>	\$ <u>13,914</u>	\$ <u>260,206</u>

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(9) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2013 and 2012 are detailed as follows:

<u>Date of issue/ maturity</u>	<u>Amount of original issue</u>	<u>Description and fixed interest rates</u>	<u>Balance outstanding</u>	
			<u>2013</u>	<u>2012</u>
Senior Bonds:				
2002/2022	\$ 173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 5.25%	\$ -	\$ 8,675,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 5.00%	35,315,000	51,720,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 4.00% – 5.00%	58,385,000	71,195,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.25% – 5.00%	58,480,000	70,825,000
2006/2026	127,445,000	Transportation System Senior Revenue Bonds, 2006 Series, 3.50% – 5.00%	101,610,000	106,725,000
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A Series, 4.00% – 5.00%	61,805,000	66,485,000
2008/2028	84,720,000	Transportation System Senior Revenue Bonds, 2008A Series, 4.00% – 5.00%	66,135,000	71,840,000
2008/2029	117,875,000	Transportation System Senior Revenue Bonds, 2008B Series, 4.00% – 5.00%	106,200,000	110,245,000
2009/2029	105,315,000	Transportation System Senior Revenue Bonds, 2009A Series, 5.00%	100,125,000	103,815,000
2010/2019	47,715,000	Transportation System Senior Revenue Bonds, 2010A Series, 4.00% – 5.00%	40,745,000	44,385,000
2010/2030	72,120,000	Transportation System Senior Revenue Bonds, 2010B Series, 3.95% – 5.80%	72,120,000	72,120,000
2012/2024	222,870,000	Transportation System Senior Revenue Bonds, 2012 Series, 3.00% – 5.00%	222,870,000	222,870,000
GARVEE Bonds:				
2010/2025	\$ 113,490,000	Transportation System Grant Anticipation Bonds, 2010 Series, 3.00% – 5.00%	99,715,000	105,835,000
Total, gross			1,023,505,000	1,106,735,000
Less: deferred amount on refunding			16,373,703	19,065,933
Total, net			1,007,131,297	1,087,669,067
Less: current portion			72,543,651	80,537,770
Long-term portion			\$ 934,587,646	\$ 1,007,131,297

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

Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$ 232,884,586	\$ 301,709,967
Capital assets	1,327,286,068	1,234,701,053
Other assets	<u>85,194,693</u>	<u>91,296,203</u>
Total assets	1,645,365,347	1,627,707,223
Liabilities:		
Current liabilities	139,277,382	146,103,053
Noncurrent liabilities	<u>978,804,076</u>	<u>1,066,305,501</u>
Total liabilities	<u>1,118,081,458</u>	<u>1,212,408,554</u>
Net position:		
Net investment in capital assets	315,012,706	156,163,826
Unrestricted	52,108,708	92,264,253
Restricted	<u>160,162,475</u>	<u>166,870,590</u>
Total net position	<u>\$ 527,283,889</u>	<u>\$ 415,298,669</u>

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

	<u>2013</u>	<u>2012</u>
Operating revenues (pledged against bonds)	\$ 385,698,138	\$ 375,799,976
Other operating revenues	55,365,898	52,965,781
Depreciation expense	(192,217)	(192,217)
Other operating expenses	<u>(343,980,633)</u>	<u>(374,485,822)</u>
Operating income	96,891,186	54,087,718
Nonoperating revenues (expenses):		
Investment income (pledged against bonds)	2,220,035	3,159,782
Other investment income (loss)	(2,893,203)	807,018
Interest expense	(39,224,203)	(42,070,709)
Federal grants	10,880,513	12,075,650
Bad debt recovery	853,488	820,566
Transfer from State General Fund	<u>43,257,404</u>	<u>43,246,922</u>
Change in net position	111,985,220	72,126,947
Beginning net position	<u>415,298,669</u>	<u>343,171,722</u>
Ending net position	<u>\$ 527,283,889</u>	<u>\$ 415,298,669</u>

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Condensed Statements of Cash Flows

	<u>2013</u>	<u>2012</u>
Net cash provided by (used in):		
Operating activities	\$ 95,210,697	\$ 59,209,925
Noncapital financing activities	43,257,404	43,246,922
Capital and related financing activities	(213,444,750)	(196,376,877)
Investing activities	<u>99,600,157</u>	<u>36,906,371</u>
Net increase (decrease)	24,623,508	(57,013,659)
Beginning cash and cash equivalents	<u>24,530,146</u>	<u>81,543,805</u>
Ending cash and cash equivalents	<u>\$ 49,153,654</u>	<u>\$ 24,530,146</u>

The Transportation System GARVEE Bonds have fixed interest rates and are limited obligations of the Authority secured by and payable solely from the annual federal appropriation for the State's federal aid transportation projects. On average, the State has been apportioned approximately \$160 million in federal highway aid annually over the past five fiscal years. At that level, principal and interest payments on the GARVEE Bonds are expected to require approximately 6.5% of pledged federal highway aid annually. While the Authority believes that sufficient pledged federal highway aid will be available during the term of the bonds to meet all required principal and interest payments, various factors beyond the Authority's control may impact the ability to make all payments when due, including, but not limited to, subsequent reauthorizations of federal highway aid and federal budgetary limitations.

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State or of any such political subdivision. The Authority had a total of \$235,628,520 in authorized but unissued revenue bonds at June 30, 2013 to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2013 was as follows:

	<u>Principal maturity</u>	<u>Interest maturity</u>	<u>Total</u>
Year ending June 30,:			
2014	\$ 75,205,000	\$ 47,162,389	\$ 122,367,389
2015	77,655,000	43,465,369	121,120,369
2016	75,350,000	39,753,639	115,103,639
2017	72,840,000	36,243,389	109,083,389
2018	72,105,000	32,798,748	104,903,748
2019 – 2023	363,055,000	110,947,865	474,002,865
2024 – 2028	228,925,000	37,587,738	266,512,738
2029 – 2033	<u>58,370,000</u>	<u>3,646,773</u>	<u>62,016,773</u>
	<u>\$ 1,023,505,000</u>	<u>\$ 351,605,910</u>	<u>\$ 1,375,110,910</u>

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

2002B Series	\$ 81,300,000
2003 Series	59,615,000
2004 Series	61,725,000
2005 Series	<u>48,055,000</u>
	<u>\$250,695,000</u>

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

(10) Debt Defeasance

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

For financial reporting purposes, the debt is considered defeased, and therefore, not reported as a liability. As of June 30, 2013 and 2012, the amount of defeased debt outstanding amounted to \$195,215,000 and \$312,801,800, respectively.

(11) Pledged Revenues

The State has pledged turnpike, motor fuel tax, and motor vehicle fee revenues to the Trust Fund in order to provide additional means to finance the maintenance and development of the State's highway transportation system, as well as security for the repayment of the outstanding revenue bonds of the Authority. Proceeds from the revenue bonds were used to finance infrastructure maintenance, preservation, and construction-related projects. The revenue bonds are payable solely from these pledged revenue streams and are not backed by the faith and credit of the State or any such political subdivision. Annual principal and interest payments on the revenue bonds are expected to require less than 35% of pledged revenues. The total principal and interest remaining to be paid on the revenue bonds as of June 30, 2013 and 2012 was \$1,375,110,910 and \$1,506,437,821, respectively. Principal and interest paid on the revenue bonds for the years ended June 30, 2013 and 2012 was \$131,326,907 and \$132,731,301, respectively. Total pledged revenues for the years ended June 30, 2013 and 2012 were \$387,918,173 and \$378,959,758, respectively.

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(12) Restricted Net Position

Restricted net position was as follows at June 30,:

	2013	2012
Pension Funds:		
Prepaid DTC pension contributions	\$ 3,312,091	\$ 3,019,873
Rebate Funds:		
Amounts generated from operations to meet future arbitrage rebate requirements	1,445,757	1,225,875
Debt Service Funds:		
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments	95,374,308	99,484,355
Debt Reserve Funds:		
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments	63,342,410	66,160,360
Highway Beautification Funds:		
Amounts held in trust to be used for highway beautification	64,350	63,233
Total restricted net position	\$ 163,538,916	\$ 169,953,696

(13) DTC Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007.

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

During January 2013, due to an arbitration award between DTC and the Amalgamated Transit Union AFL-CIO, Local 842, the previously mentioned collective bargaining agreements were amended for a three-year term, effective September 1, 2010 through August 31, 2013. As of the date of issuance of the financial statements, DTC is still negotiating terms for a new contract with the Amalgamated Transit Union AFL-CIO, Local 842.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2007 through December 31, 2009. As of June 30, 2013, DTC was still negotiating terms for a new contract with this union.

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(14) Pension Plans

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

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

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

Fiscal year	Annual retirement expense	Employer contribution rate			
		Pension plan	PRI	RHI	Total
2013	\$ 13,948,768	9.80%	1.49%	8.99%	20.28%
2012	13,281,013	9.27	0.50	8.99	18.76
2011	11,816,997	8.30	0.81	8.09	17.20

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

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

(15) DTC Defined Benefit Pension Plans

(a) Plan Descriptions

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

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(b) Funding Policy and Annual Pension Cost

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

	<u>DTC Pension Plan</u>	<u>Contributory Pension Plan</u>
Contribution rates:		
Employer	8.7%*	5.00%
Participants	3.00%	5.00%
Annual pension cost	\$ 962,682	\$ 714,524
Contributions made	\$ 963,253	\$ 1,080,068
Actuarial valuation date	7/01/12	1/01/13
Actuarial cost method	Frozen initial liability	Entry age normal
Amortization method	Open Level Dollar	Open Level Percent
Remaining amortization period	30	15
Asset valuation method	Market	Five-year smoothed
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	2.50%	4.00%

Note: * = Actuarially Determined

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

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

	DTC Pension Plan	Contributory Pension Plan
	06/30/13	12/31/12
For the year ended:		
Annual Required Contribution (ARC)	\$ 962,682	\$ 714,521
Interest on Net Pension Obligation (NPO)	8,163	292,950
Actuarial adjustment	(8,163)	(219,050)
Annual Pension Cost (APC)	<u>962,682</u>	<u>788,421</u>
Less: actual contributions	<u>(963,253)</u>	<u>(1,080,068)</u>
Increase (decrease) in NPO	(571)	(291,647)
Net pension obligation (asset), beginning of the year	<u>109,418</u>	<u>(3,129,291)</u>
Net pension obligation (asset), end of the year	<u><u>\$ 108,847</u></u>	<u><u>\$ (3,420,938)</u></u>
For the year ended:	06/30/12	12/31/11
Annual Required Contribution (ARC)	\$ 996,827	\$ 594,277
Interest on Net Pension Obligation (NPO)	8,202	(189,959)
Actuarial adjustment	(8,202)	254,045
Annual Pension Cost (APC)	<u>996,827</u>	<u>658,363</u>
Less: actual contributions	<u>(996,777)</u>	<u>(1,073,948)</u>
Increase (decrease) in NPO	50	(415,585)
Net pension obligation (asset), beginning of the year	<u>109,368</u>	<u>(2,713,706)</u>
Net pension obligation (asset), end of the year	<u><u>\$ 109,418</u></u>	<u><u>\$ (3,129,291)</u></u>

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

Three-Year Trend Information

	Plan year ended	Contributions made	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension plan asset (liability)
DTC Pension Plan	06/30/2011	\$ 1,111,468	\$ 1,111,548	99.99%	\$ (109,368)
	06/30/2012	996,777	996,827	99.99	(109,418)
	06/30/2013	963,253	962,682	100.06	(108,847)
Contributory Pension Plan	12/31/2010	\$ 1,081,793	\$ 535,681	201.95%	\$ 2,713,706
	12/31/2011	1,073,948	658,363	163.12	3,129,291
	12/31/2012	1,080,068	788,421	136.99	3,420,938

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

Schedules of Funding Progress							
	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess (Deficit) of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Deficit) as a Percentage of Covered Payroll ((a-b)/c)
DTC Pension Plan	07/1/2012	\$ 15,941,868	\$ 16,990,051	\$ (1,048,183)	93.83%	\$ 11,041,527	(9.49)%
Contributory Pension Plan	01/1/2013	32,243,870	34,423,975	(2,180,105)	93.67%	24,788,597	(8.79)%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(16) Other Post-Employment Benefits (OPEB)

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

(a) Plan Description

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

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

Membership of the Plan consisted of the following at June 30, 2013:

Retirees and beneficiaries receiving benefits	19,863
Terminated plan members entitled to but not yet receiving the benefits	2,575
Active eligible Plan members	36,316
Total	<u>58,754</u>

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

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

Eligibility

Early Retirement:

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

Normal Retirement:

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

For employees hired on or after January 1, 2012 - Age 65 with 10 years of service or age 60 with 20 years of service or any age with 30 years of service.

Benefits

During the fiscal years ended June 30, 2013 and 2012, the State provided health insurance options through several providers whose plans all include hospital, medical, mental health, substance abuse, and prescription drug benefits.

Spouse and Survivor Coverage

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

Employee Contributions

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

	<u>Percent of premium paid by State</u>
Years of service:	
Less than 10	0%
10 – 14	50
15 – 19	75
20 or more	100

(b) Funding Policy

The State funds the OPEB Trust for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State statute Title 29 of the Delaware Code c.52, contribution requirements of Plan members and the government are established

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and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the OPEB Trust financial statements. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the OPEB Trust.

(c) Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percentage of covered payroll, with an additional amount to pre-fund benefits, which is not actuarially determined. For fiscal year 2013, the State contribution in relation to the annual required contribution of the employer (ARC) totaled \$208.0 million. The portion of the contribution allocated to the Department for fiscal year 2013 was \$10.7 million. For fiscal year 2012, the State contribution in relation to the ARC totaled \$186.1 million. The portion of the contribution allocated to the Department for fiscal year 2011 was \$9.9 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage during fiscal years 2013 and 2012 totaled \$7.4 million and \$6.5 million, respectively.

(d) Annual OPEB Cost and Net OPEB Obligation

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

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	<u>State total</u>	<u>Department allocation</u>
Net OPEB obligation as of June 30, 2011	\$ 1,272.0	\$ 66.2
Annual required contribution	490.5	26.0
Interest on net OPEB obligation	54.4	2.9
Adjustment to annual required contribution	<u>(49.4)</u>	<u>(2.6)</u>
Annual OPEB cost	1,767.5	92.5
Employer contributions	<u>(186.1)</u>	<u>(9.9)</u>
Net OPEB obligation as of June 30, 2012	<u>\$ 1,581.4</u>	<u>\$ 82.6</u>
Net OPEB obligation as of June 30, 2012	\$ 1,581.4	\$ 82.6
Annual required contribution	397.8	20.6
Interest on net OPEB obligation	67.5	3.5
Adjustment to annual required contribution	<u>(61.3)</u>	<u>(3.2)</u>
Annual OPEB cost	1,985.4	103.5
Employer contributions	<u>(208.0)</u>	<u>(10.7)</u>
Net OPEB obligation as of June 30, 2013	<u>\$ 1,777.4</u>	<u>\$ 92.8</u>

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

	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended:			
6/30/13	\$ 103.5	10%	\$ 92.8
6/30/12	92.5	11	82.6
6/30/11	76.0	13	66.2

(e) Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the Plan was 3.7% funded. The actuarial accrued liability for benefits was \$5,988 million, and the actuarial value of assets was \$222 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,766 million for the State. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,944 million, and the ratio of the UAAL to the covered payroll was 297%. Specific amounts related to the Department cannot be determined.

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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 are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(f) Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on Plan assets and on the State's own investments calculated based on the funded level of the Plan at the valuation date, and an initial medical inflation rate of between 5.50% and 6.50%, depending on the type of coverage, with an ultimate rate of 4.25%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

(17) DTC Post-Employment Benefits

(a) Plan Description

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

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

Membership of the Plan consisted of the following at June 30, 2013:

Retirees and beneficiaries receiving benefits	158
Terminated plan members entitled to but not yet receiving the benefits	59
Active eligible plan members	799
Total	<u><u>1,016</u></u>

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

Eligibility

Contract Employees:

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

Noncontract Employees:

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

Benefits

During the fiscal year ended June 30, 2013, DTC provided health insurance options through several providers.

Spouse and Survivor Coverage

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

Employee Contributions

No contributions are required by the employees.

(b) Funding Policy

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding on an ad hoc basis. Funds are recorded in the DTC OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the DTC OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee and is responsible for the financial management of the DTC OPEB Trust. The cash basis costs associated with these benefits were \$1,193,708 and \$1,168,152 for the years ended June 30, 2013 and 2012, respectively.

(c) Contributions

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

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(d) Annual OPEB Cost and Net OPEB Obligation

DTC's annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligation. The following table shows the components of DTC's annual OPEB cost for fiscal year 2013 and the preceding year, the amount actually contributed to the Plan, and DTC's net OPEB obligation:

Net OPEB obligation at of June 30, 2011	\$	45,115,000
Annual required contribution		17,074,000
Interest on net OPEB obligation		1,799,000
Adjustment to annual required contribution		<u>(1,799,000)</u>
Net OPEB obligation before contributions		62,189,000
Contributions made		(1,168,152)
Prefunding trust contribution		—
Net OPEB obligation as of June 30, 2012	\$	<u><u>61,020,848</u></u>
Net OPEB obligation as of June 30, 2012	\$	61,020,848
Annual required contribution		16,072,000
Interest on net OPEB obligation		2,434,000
Adjustment to annual required contribution		<u>(2,835,000)</u>
Net OPEB obligation before contributions		76,691,848
Contributions made		(1,193,708)
Prefunding trust contribution		—
Net OPEB obligation as of June 30, 2013	\$	<u><u>75,498,140</u></u>

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

	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended:			
6/30/13	\$ 15,671,000	7.62%	\$ 75,498,140
6/30/12	17,074,000	6.84%	61,020,848
6/30/11	15,772,000	6.61%	45,115,000

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(e) *Funded Status and Funding Progress*

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 1.4% funded. The actuarial accrued liability was \$121,627,000, and the actuarial value of assets was \$1,755,283, resulting in a UAAL of \$119,871,717. The covered payroll (annual payroll of active employees covered by the Plan) was \$34,537,878, and the ratio of the UAAL to the covered payroll was 347.07%.

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

(f) *Actuarial Methods and Assumptions*

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

In the July 1, 2012 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.0% investment rate of return, 3.0% payroll growth rate, a 2.5% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced by decrements to 5.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 4.2% after 2098. The unfunded liability is being amortized as a level percentage of payroll over a 30-year closed amortization period.

(18) *Commitments and Contingencies*

(a) *Construction Commitments*

The Department had contractual commitments of \$253,245,746 and \$331,977,665 for construction of various highway projects at June 30, 2013 and 2012, respectively. Current and future appropriations will fund these commitments as work is performed.

(b) *Litigation*

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

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(c) *Pollution Remediation*

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

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

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

The remediation obligation estimates presented in these financial statements are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Department's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During fiscal years 2013 and 2012, the Department did not recognize any additional liabilities, had no spending related to pollution remediation obligation related activities, and had no recoveries from other responsible parties. For fiscal year 2013, the liability initially recorded was decreased by \$1,221,950 due to revised cost estimates and by \$112,250 as a result of spending. At June 30, 2013 and 2012, the Department had outstanding pollution remediation liabilities of \$4,004,700 and \$5,338,900, respectively.

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(19) Risk Management

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

(a) Workers' Compensation Insurance

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

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

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

Subsequent to fiscal year 2003, DTC changed its coverage and is insured through the State. Under the State program, DTC pays a premium calculated as \$8.14 and \$7.36 per \$100 of payroll for the years ended June 30, 2013 and 2012, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

(b) Auto Insurance

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

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

For 2003 and subsequent years, DTC changed its auto insurance coverage whereby they established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for coverage amounts in excess of the self-insured retention thresholds. DTC established initial loss reserve insurance liabilities for each of the years based upon actuarially determined valuations assuming DTC's maximum liability exposure to be \$300,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329).

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DTC has several cases that were settled in excess of the sovereign immunity cap. The exposure on these cases cannot be reasonably quantified. For individual claims in excess of the sovereign immunity cap, DTC established a maximum amount of loss based upon their self-insured retention program, as well as purchasing insurance coverage in the amounts identified in the table below:

	Initial loss reserve insurance liability established	Maximum amount of loss under self-insured retention program (per occurrence)	Excess commercial coverage (aggregate)
2003	\$ 2,561,000	\$ 1,300,000	\$ 10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000
2007 (07/01/06 – 01/14/07)	2,607,350	2,300,000	5,000,000
2007 (01/15/07 – 06/30/07)	*	900,000	**
2008	3,106,000	900,000	**
2009	3,129,000	900,000	**
2010	3,467,000	1,000,000	***
2011	3,372,000	1,000,000	***
2012	3,828,996	1,000,000	***
2013	4,304,004	1,000,000	***

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

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

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

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

	<u>2013</u>	<u>2012</u>
Auto loss reserve remaining for fiscal year:		
2013	\$ 3,437,000	\$ —
2012	3,276,000	3,211,000
2011	1,605,000	3,438,000
2010	1,342,000	1,715,000
2009	47,000	338,000
2008	104,000	228,000
2007	32,000	50,000
2006	—	20,000
2005	—	5,000
1999	4,000	4,000
	<u>\$ 9,847,000</u>	<u>\$ 9,009,000</u>

Changes in the balances of total claim liabilities during fiscal years 2013 and 2012 were as follows:

	<u>Beginning balance July 1</u>	<u>Current year estimated claims and changes in estimates</u>	<u>Actual claim payments</u>	<u>Ending balance June 30</u>
Fiscal year:				
2013	\$ 9,009,000	\$ 4,686,013	\$ (3,848,013)	\$ 9,847,000
2012	7,075,000	4,840,689	(2,906,689)	9,009,000

(20) Operating Leases

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were \$257,797 and \$272,602 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2013 are as follows:

2014	\$ 258,197
2015	260,597
2016	188,747
2017	47,993
2018	1,800
2019 – 2021	3,600
	<u>\$ 760,934</u>

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DTC had an operating lease agreement for transit vehicle tires, which expired on May 19, 2009. DTC is continuing to operate under the old contract as a new one has not been negotiated yet. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2013 and 2012, DTC incurred expenses related to this lease of \$344,942 and \$265,853, respectively.

(21) Transfers from the State General Fund

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

	2013	2012
Amounts transferred to the Trust Fund:		
Division of Motor Vehicles	\$ 2,950,000	\$ 2,950,000
Division of Revenue, Motor Vehicle Dealer/Lessor license and document fees	307,404	296,922
Supplemental appropriation from fiscal year Bond Bill	40,000,000	40,000,000
	\$ 43,257,404	\$ 43,246,922

(22) Blended Component Units

Pursuant to GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, condensed financial information for the blended activities of the Delaware Transportation Authority was as follows at June 30,:

Condensed Statements of Net Position

	2013	2012
Assets:		
Current assets	\$ 266,167,060	\$ 333,097,604
Capital assets	1,436,323,487	1,343,604,995
Other assets	88,506,784	94,316,076
Total assets	1,790,997,331	1,771,018,675
Liabilities:		
Current liabilities	148,478,720	155,883,728
Noncurrent liabilities	1,063,593,490	1,135,109,889
Total liabilities	1,212,072,210	1,290,993,617
Net position:		
Net investment in capital assets	424,050,125	265,067,768
Unrestricted	163,474,566	169,890,463
Restricted	(8,599,570)	45,066,827
Total net position	\$ 578,925,121	\$ 480,025,058

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

	<u>2013</u>	<u>2012</u>
Operating revenues (pledged against bonds)	\$ 385,698,138	\$ 375,799,976
Other operating revenues	72,390,609	69,788,261
Depreciation expense	(17,650,620)	(17,435,228)
Other operating expenses	<u>(377,623,294)</u>	<u>(411,353,861)</u>
Operating income	62,814,833	16,799,148
Nonoperating revenues (expenses):		
Investment income (pledged against bonds)	2,220,035	3,159,782
Other investment income (loss)	(2,828,611)	869,046
Interest expense	(39,224,203)	(42,070,709)
Federal grants	13,834,421	15,447,445
Other nonoperating expenses	(699,945)	(1,400,057)
Capital contributions	13,979,704	16,672,423
Transfer from DelDOT	5,546,425	6,864,213
Transfer from State General Fund	<u>43,257,404</u>	<u>43,246,922</u>
Change in net position	98,900,063	59,588,213
Beginning net position	<u>480,025,058</u>	<u>420,436,845</u>
Ending net position	<u>\$ 578,925,121</u>	<u>\$ 480,025,058</u>

Condensed Statements of Cash Flows

	<u>2013</u>	<u>2012</u>
Net cash provided by (used in):		
Operating activities	\$ 94,096,153	\$ 54,020,841
Noncapital financing activities	46,135,326	46,540,780
Capital and related financing activities	(213,315,508)	(196,130,522)
Investing activities	<u>99,800,147</u>	<u>36,927,406</u>
Net increase (decrease)	26,716,118	(58,641,495)
Beginning cash and cash equivalents	<u>48,684,066</u>	<u>107,325,561</u>
Ending cash and cash equivalents	<u>\$ 75,400,184</u>	<u>\$ 48,684,066</u>

REQUIRED SUPPLEMENTARY INFORMATION

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Required Supplementary Information

June 30, 2013 and 2012

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

BCR condition rating		Structural rating numbers and percentages for bridges					
		2013		2012		2010	
		Number	Percentage	Number	Percentage	Number	Percentage
Good	6 – 9	1,151	71.9 %	1,149	72.2 %	1,137	72.8 %
Fair	5	334	20.9	322	20.2	313	20.0
Poor	0 – 4	116	7.2	120	7.6	112	7.2
Totals		1,601	100.0 %	1,591	100.0 %	1,562	100.0 %

OPC condition rating		Deck rating numbers and percentages for bridges					
		2013		2012		2010	
		Square feet	Percentage	Square feet	Percentage	Square feet	Percentage
Good	6 – 9	6,956,457	91.4 %	6,476,158	90.3 %	6,685,282	91.1 %
Fair	5	649,176	8.5	687,461	9.6	651,712	8.8
Poor	0 – 4	9,347	0.1	10,720	0.1	4,994	0.1
Totals		7,614,980	100.0 %	7,174,339	100.0 %	7,341,988	100.0 %

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

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

	2013	2012	2011
Estimated	\$ 185,399	\$ 243,600	\$ 259,351
Actual	233,810	285,923	248,973

* Amounts are inclusive of all maintenance and preservation costs, including payroll and professional fees which are separately stated on the statements of revenues, expenses, and changes in fund net position in the basic financial statements.

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

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

It is the State’s policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. The Department’s assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2013 is not available for all assessments.

Required Supplementary Information – DTC Pensions

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

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

Schedules of Funding Progress

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a-b)/c)</u>
DTC Pension Plan	07/1/2010	\$ 12,329,167	\$ 12,841,594	\$ (512,427)	96.01%	\$ 11,464,713	(4.47)%
	07/1/2011	15,121,491	16,236,313	(1,114,822)	93.13%	11,253,210	(9.91)%
	07/1/2012	15,941,868	16,990,051	(1,048,183)	93.83%	11,041,527	(9.49)%
Contributory Pension Plan	01/1/2011	\$ 29,920,228	\$ 29,601,647	\$ 318,581	101.08%	\$ 22,847,401	1.39 %
	01/1/2012	30,863,722	32,171,013	(1,307,291)	95.94%	22,985,063	(5.69)%
	01/1/2013	32,243,870	34,423,975	(2,180,105)	93.67%	24,788,597	(8.79)%

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Required Supplementary Information

June 30, 2013 and 2012

Required Supplementary Information – DTC OPEB Trust

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

Schedule of Funding Progress								
	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a-b)/c)</u>	
DTC OPEB Trust	07/1/2010	\$ 1,500,000	\$ 111,122,000	\$ (109,622,000)	1.35%	\$ 31,293,725	(350.30)%	
	07/1/2011	1,605,000	125,866,000	(124,261,000)	1.28%	31,883,191	(389.74)%	
	07/1/2012	1,755,283	121,627,000	(119,871,717)	1.44%	34,537,878	(347.07)%	

ADDITIONAL INFORMATION

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Schedule of Revenue Bond Coverage

June 30, 2013

(In thousands)

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

<u>Fiscal year</u>	<u>Gross pledged revenue</u>	<u>Debt service requirements</u>			<u>Coverage*</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2004	\$ 308,091	\$ 47,640	\$ 38,176	\$ 85,816	3.59
2005	300,820	53,920	39,370	93,290	3.22
2006	337,350	58,445	40,573	99,018	3.41
2007	346,954	61,370	45,534	106,904	3.25
2008	381,590	67,640	46,210	113,850	3.35
2009	367,399	73,510	43,619	117,129	3.14
2010	363,948	74,380	50,885	125,265	2.91
2011	376,186	71,760	52,585	124,345	3.03
2012	378,960	76,320	56,411	132,731	2.86
2013	387,918	83,230	48,097	131,327	2.95

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

See accompanying independent auditors' report.

See Accountants' Compilation Report.



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

Delaware Department of Transportation
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 the Delaware Department of Transportation (Department of Transportation), a fund of the State of Delaware, as of and for the year ended June 30, 2013, and have issued our report thereon dated December 17, 2013.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention of those charged with governance.

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

Compliance and Other Matters

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



tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 the Department of Transportation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Transportation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Philadelphia, PA
December 17, 2013