DELAWARE TRANSIT CORPORATION

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

Issuance Date: November 25, 2015

Delaware Transit Corporation

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Santora CPA Group
Right, By Your Side

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

Robert Freed, Principal
Linda A. Pappajohn, Principal

Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to DTC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Trustees

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

Opinion

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

Emphasis of Matter

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

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

Other Matters

The financial statements of DTC as of and for the Fiscal Year Ended June 30, 2014 were audited by other auditors whose report dated November 5, 2014 expressed an unmodified opinion on those financial statements.

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015 on our consideration of DTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DTC's internal control over financial reporting and compliance.

Santora CPA Group

November 20, 2015
Newark, Delaware

Delaware Transit Corporation

Management's Discussion and Analysis

June 30, 2015 and 2014

This section of Delaware Transit Corporation's (DTC) annual financial statements presents our discussion and analysis of DTC's financial performance during the Fiscal Years Ended June 30, 2015 and 2014.

Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates Delaware Administration for Regional Transit (DART) First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of DART, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 240 fixed route and 295 paratransit vehicles on 71 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 37 park-and-ride lots and 12 park-and-pool lots with an estimated 5,288 parking spaces. DTC maintains approximately 2,682 bus stops throughout the State of Delaware (the State), with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carried over 11.5 million riders.

Financial Highlights

- The 2015 operating revenues were approximately $21.3 million and were $3.1 million higher than 2014 operating revenues. Passenger and parking revenues contributed to the increase, primarily due to fare and parking rate increases.

- Total 2015 operating expenses before depreciation were approximately $123.0 million and were $3.0 million less than 2014 operating expenses. The decrease in operating expenses before depreciation is largely due to decreased costs for materials and supplies.

- A $20.3 million investment was made in capital assets during the current year (the funding was $6.0 million in state capital grants and $13.8 million in federal capital grants). This is primarily attributable to the purchase of revenue vehicles ($0.5 million of the total investment was purchased with DTC operating dollars).

Overview of the Financial Statements

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

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

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

Financial Analysis

Statements of Net Position

Total assets increased 1.0% to $164.2 million. Total liabilities increased 11.2% to $128.9 million in 2015 and 23.3% to $115.9 million in 2014. Total net position at June 30, 2015 was approximately $36.8 million, a 21.2% decrease from June 30, 2014.

Delaware Transit Corporation's Net Assets
(In millions of dollars)

	2015	2014	2013	Percentage Change 2015 - 2014	Percentage Change 2014 - 2013
Current assets	$ 40.6	$ 36.7	$ 33.3	10.6%	10.2%
Capital assets	123.4	122.2	109.0	1.0%	12.1%
Other noncurrent assets	0.2	3.7	3.3	(94.6)%	12.1%
Total assets	164.2	162.6	145.6	1.0%	11.7%
Deferred outflows of resources	2.2	—	—	100.0%	0.0%
Current liabilities	16.0	13.2	9.2	21.2%	43.5%
Noncurrent liabilities	112.9	102.7	84.8	9.9%	21.1%
Total liabilities	128.9	115.9	94.0	11.2%	23.3%
Deferred inflows of resources	0.7	—	—	100.0%	0.0%
Net position:					
Investment in capital assets	123.4	122.2	109.0	1.0%	12.1%
Restricted - pension obligation	0.2	3.7	3.3	(94.6)%	12.1%
Unrestricted	(86.8)	(79.2)	(60.7)	9.6%	30.5%
Total net position	$ 36.8	$ 46.7	$ 51.6	(21.2)%	(9.5)%

Other noncurrent assets decreased $3.5 million to $0.2 million due to a decrease in the net pension asset, as a result of the impact of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The increase in total liabilities was due to an increase in other post-employment benefits payable, which increased $10.6 million to $101.5 million due to DTC not fully funding the annual required contribution.

Change in Net Position

The decrease in net position as of June 30, 2015 was approximately $9.9 million, which is a decrease in net position of 21.2% over 2014. The increase in DTC's 2015 total operating revenues of $3.1 million is primarily due to increased passenger revenues. Total operating expenses decreased 1.6% to approximately $142.1 million.

Change in the Delaware Transit Corporation's Net Position
(In millions of dollars)

	2015	2014	2013	Percentage Change 2015 - 2014	Percentage Change 2014 - 2013
Operating revenues:					
Passenger revenue	$ 18.5	$ 16.3	$ 14.6	13.5%	11.6%
Other operating revenue	2.8	1.9	2.9	47.4	(34.5)
Total operating revenues	21.3	18.2	17.5	17.0	4.0
Operating expenses:					
Total operating expenses before before depreciation	123.0	126.0	116.7	(2.4)	8.0
Depreciation	19.1	18.4	17.5	3.8	5.1
Total operating expenses	142.1	144.4	134.2	(1.6)	7.6
Operating loss	(120.8)	(126.2)	(116.7)	(4.3)	8.1
Nonoperating revenues, net	6.0	4.1	1.0	46.3	310.0
Capital contributions	13.8	25.9	14.0	(46.7)	85.0
Transfers from DelDOT	92.9	91.3	88.6	1.8	3.0
Change in net position	(8.1)	(4.9)	(13.1)	65.3	(62.6)
Total net position, beginning of year	46.7	51.6	64.7	(9.5)	(20.2)
Prior period adjustment - Implementation of GASB Nos. 68 and 71	(1.8)	—	—	100.0	—
Total net position, beginning of year, as restated	44.9	51.6	64.7	100.0	—
Total net position, end of year	$ 36.8	$ 46.7	$ 51.6	(21.2)%	(9.5)%

The decrease in operating expenses in 2015 is due to an adjusting entry decreasing property damage and professional liability expenses based on the actuary report. The increases in operating expenses in 2014 were due to the increased costs relating to salaries and fringe benefits, as well as other post-employment benefits.

Capital contributions were down $12.1 million due to DTC's timing related to vehicle replacement and expansion schedules.

Capital Assets

As of Fiscal Years June 30, 2015 and 2014, DTC had approximately $242.2 million and $247.8 million, respectively, invested in capital assets, which included land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's capital assets at Fiscal Years June 30, 2015 and 2014 totaled approximately $123.4 million and $122.2 million, respectively.

Net capital assets increased $1.2 million and $13.2 million during the Fiscal Years Ended June 30, 2015 and 2014, respectively. The increase in capital assets for the Fiscal Year Ended June 30, 2015 amounting to $20.3 million is primarily attributed to purchase of revenue vehicles, offset by depreciation expense of $19.1 million. The increase in capital assets for the Fiscal Year Ended June 30, 2014 is primarily attributed to the purchase of 90 replacement and eight expansion revenue vehicles amounting to $31.8 million, offset by depreciation expense of $18.4 million.

Assets disposed of during 2015 and 2014 totaled $26.0 million and $2.9 million, respectively. Disposals related primarily to the replacement of revenue vehicles.

Economic Factors and Next Year's Budget

DTC submits their operating and capital budgets as part of DelDOT's submission to the General Assembly. DTC's Fiscal Year 2016 operating and capital budgets have been authorized by the General Assembly to meet the demand for core transit services in the State. The Fiscal Year 2016 total operating budget is $114.5 million, which is 1.4% higher than Fiscal Year's 2015 operating budget. The capital budget is $61 million, which authorizes funding for the purchase of replacement and expansion transit vehicles, facility construction, and rail projects.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions,* was effective for DTC beginning in 2008. DTC provides post-retirement healthcare benefits to all employees who retire from DTC after meeting eligibility requirements. GASB No. 45 requires calculation of the unfunded actuarial accrued liability and annual required contribution related to these post-retirement benefits. The pay-as-you-go cash basis costs associated with these benefits was $1.4 million and $1.2 million for the Fiscal Years Ended June 30, 2015 and 2014, respectively. The impact on the financial statements based upon this standard was the recognition of $11.9 million and $16.7 million in benefit expenses for the Fiscal Years Ended June 30, 2015 and 2014, respectively. DTC expects a similar impact on the 2016 financial statements.

In Fiscal Year 2015, DTC adopted two new accounting standards, GASB No. 68 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

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

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

Contacting DTC's Financial Management

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

DELAWARE TRANSIT CORPORATION

Statements of Net Position

June 30, 2015 and 2014

Assets		2015		2014
Current assets				
Cash and cash equivalents	$	34,715,497	$	29,394,671
Accounts receivable				
Trade		1,016,993		1,094,618
State		758,138		566,187
Federal		765,313		1,815,789
Inventory		3,096,249		3,573,192
Escrow insurance deposits		167,356		144,386
Prepaid expenses		39,974		68,939
Total current assets		40,559,520		36,657,782
Noncurrent assets				
Capital assets - nondepreciable				
Land		1,872,536		1,872,536
Capital assets - depreciable				
Buildings and improvements		57,862,351		56,753,110
Furniture, vehicles, and equipment		182,422,919		189,174,255
Total capital assets		242,157,806		247,799,901
Less: accumulated depreciation		(118,779,115)		(125,596,078)
Total capital assets, net		123,378,691		122,203,823
Net pension asset		253,443		3,707,985
Total noncurrent assets		123,632,134		125,911,808
Total assets		164,191,654		162,569,590
Deferred outflows of resources				
Pension contributions made after the measurement date		2,232,549		—
Total deferred outflows		2,232,549		—

(Continued)

DELAWARE TRANSIT CORPORATION

Statements of Net Position

June 30, 2015 and 2014

Liabilities and Net Position	2015	2014
Current liabilities		
Accounts payable and other accrued expenses	$ 10,317,149	$ 7,872,189
Accrued payroll and related expenses	2,124,008	1,863,691
Compensated absences	1,127,251	1,060,499
Insurance loss reserve	2,485,340	2,427,420
Total current liabilities	16,053,748	13,223,799
Noncurrent liabilities		
Compensated absences – net of current portion	2,194,981	2,131,193
Insurance loss reserve – net of current portion	9,168,660	9,583,580
Other post-employment benefits payable	101,508,765	90,958,540
Total noncurrent liabilities	112,872,406	102,673,313
Total liabilities	128,926,154	115,897,112
Deferred inflows of resources		
Differences between projected and actual earnings on pension plan investments	706,367	—
Total deferred inflows	706,367	—
Net position		
Investment in capital assets	123,378,691	122,203,823
Restricted – pension obligations	253,443	3,707,985
Unrestricted deficit	(86,840,452)	(79,239,330)
Total net position	$ 36,791,682	$ 46,672,478

See notes to financial statements.

DELAWARE TRANSIT CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Passenger fares	$ 18,452,285	$ 16,332,282
Advertising	586,879	622,709
Miscellaneous	1,522,452	606,568
Auxiliary transportation	711,243	650,475
Total operating revenues	21,272,859	18,212,034
Operating expenses		
Payroll expense	79,833,141	79,920,236
Professional fees and services	21,598,327	20,854,491
Materials and supplies	13,743,180	15,145,329
Office and miscellaneous	7,847,313	10,114,281
Total operating expenses before depreciation	123,021,961	126,034,337
Depreciation	19,131,585	18,418,837
Total operating expenses	142,153,546	144,453,174
Operating loss	(120,880,687)	(126,241,140)
Nonoperating revenues (expenses)		
Federal operating assistance	7,475,681	6,203,029
Pass-through grant revenue	3,528,336	3,772,771
Pass-through grant expense	(4,962,061)	(5,973,876)
Investment income	—	24,083
Excess of nonoperating revenues over nonoperating expenses	6,041,956	4,026,007
Loss before contributions and transfers	(114,838,731)	(122,215,133)
Capital contributions	13,791,965	25,908,423
Transfers from DelDOT	92,915,587	91,337,956
Change in net position	(8,131,179)	(4,968,754)
Net position, beginning of the year	46,672,478	51,641,232
Prior period adjustment - implementation of GASB Nos. 68 and 71		
Net pension asset (measurement date)	(3,815,944)	—
Deferred outflows - Corporation's contributions made during Fiscal Year 2014	2,066,327	—
Total prior period adjustment	(1,749,617)	—
Net position, beginning of the year, as restated	44,922,861	51,641,232
Net position, end of the year	$ 36,791,682	$ 46,672,478

See notes to financial statements.

DELAWARE TRANSIT CORPORATION

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Receipts from passengers	$ 18,374,660	$ 16,508,029
Payments to suppliers	(39,820,124)	(34,731,205)
Payments to employees	(63,791,063)	(64,408,631)
Insurance claims paid	(5,537,731)	(3,960,884)
Other receipts	2,820,390	1,879,773
Net cash used in operating activities	(87,953,868)	(84,712,918)
Cash flows from noncapital financing activities		
Federal operating subsidies	7,475,681	4,516,222
Pass-through grant revenue receipts	3,528,336	4,074,199
Pass-through grant revenue payments	(4,962,061)	(5,973,876)
Transfers from DelDOT	86,895,246	85,445,937
Net cash provided by noncapital financing activities	92,937,202	88,062,482
Cash flows from capital and related financing activities		
Proceeds from capital contributions	14,842,441	24,559,755
Transfers from DelDOT – capital	5,828,390	5,892,019
Acquisition of capital assets	(20,356,310)	(30,714,456)
Net cash provided by capital and related financing activities	314,521	(262,682)
Cash flows from investing activities		
Payments (to) from insurance escrow account	22,971	37,176
Interest income received	—	24,083
Net cash provided by investing activities	22,971	61,259
Net increase in cash and cash equivalents	5,320,826	3,148,141
Cash and cash equivalents – beginning	29,394,671	26,246,530
Cash and cash equivalents – ending	$ 34,715,497	$ 29,394,671
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (120,880,687)	$ (126,241,140)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	19,131,585	18,418,837
Adoption of GASB Nos. 68 and 71	(178,743)	—
Changes in assets and liabilities		
Decrease in trade accounts receivable	77,625	175,748
Decrease in inventories	476,943	494,922
Decrease in prepaid expenses	28,965	928,249
(Increase) decrease in net pension asset	361,402	(395,894)

Continued…

DELAWARE TRANSIT CORPORATION

Statements of Cash Flows (Continued)

Years Ended June 30, 2015 and 2014

		2015		2014
Reconciliation of operating loss to net cash used in operating activities (continued)				
Changes in assets and liabilities (continued)				
Increase in accounts payable and other accrued expenses	$	2,444,960	$	3,834,861
Increase in accrued payroll and related expenses		260,317		209,786
Increase in compensated absences		130,540		237,313
Increase (decrease) in insurance loss reserve		(357,000)		2,164,000
Increase in other post-employment benefits payable		10,550,225		15,460,400
Net cash used in operating activities	$	(87,953,868)	$	(84,712,918)

See notes to financial statements.

(1) Authorizing Legislation

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

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

(2) Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Inventory

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

(d) Capital Assets

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

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

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

(e) Capital Contributions and Transfers

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

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

(f) Compensated Absences

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

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

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

A deferred outflow of resources is reported for employer pension contributions made subsequent to the measurement date of DTC's beginning net pension liability and before the end of DTC's current reporting period. These charges will be recognized as a reduction to the net pension liability in Fiscal Year 2016.

A deferred inflow of resources is reported for the difference between projected and actual investment earnings on pension plan investments. The difference is amortized over a five-year period, with the first year of amortization recognized as a component of pension expense in the current year.

(h) Revenues and Expenses

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

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

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

(i) Allowance for Uncollectible Accounts

Management charges revenue with doubtful accounts when they are considered uncollectible. At June 30, 2015 and 2014, there was no allowance for doubtful accounts.

(j) 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.

(k) New Accounting Standards Adopted

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

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

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

In Fiscal Year 2014, DTC adopted the following standards:

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

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

(3) Cash and Investments

(a) Cash Management Policy

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

All deposits of DTC are categorized as "DTC Accounts."

The Policy is available on the Office of the State Treasurer's website at http://treasury.delaware.gov.

(b) Custodial Credit Risk

Deposits

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

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

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

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

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

As of Fiscal Years June 30, 2015 and 2014, the financial institutions maintaining DTC's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

Cash and Cash Equivalents

Cash and cash equivalents, as reported on the statements of net position, are under the control of DTC. DTC maintains all of its cash and cash equivalents with one financial institution. The carrying amounts of DTC's deposits at Fiscal Years June 30, 2015 and 2014 were $34,715,497 and $29,394,671, respectively, and the bank balances were $35,535,063 and $30,195,559, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The bank balances of $35,535,063 and $30,195,559 at Fiscal Years June 30, 2015 and 2014 were covered up to $250,000 by the FDIC and the remainder by collateral held by DTC's Trustee, in DTC's name.

(c) Funding of Unpaid Loss Insurance Reserve Liability

Included in cash at Fiscal Years June 30, 2015 and 2014 was $11,486,643 and $11,866,614, respectively, which will be utilized to fund the remaining loss insurance liability (Note 11) less the escrow insurance deposits.

(4) Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets - nondepreciable				
Land	$ 1,872,536	$ —	$ —	$ 1,872,536
Total capital assets - nondepreciable	1,872,536	—	—	1,872,536
Capital assets - depreciable				
Buildings	56,753,109	1,109,241	—	57,862,350
Revenue vehicles	148,896,751	16,717,391	(25,963,115)	139,651,027
Service vehicles and equipment	8,485,263	149,543	—	8,634,806
Communication equipment	25,263,551	1,136,686	—	26,400,237
Furniture and fixtures	752,754	92	—	752,846
Bus signs and shelters	5,775,937	1,208,067	—	6,984,004
	245,927,365	20,321,020	(25,963,115)	240,285,270
Less: accumulated depreciation				
Buildings	20,549,972	2,084,867	—	22,634,839
Revenue vehicles	77,523,193	14,013,603	(25,948,548)	65,588,248
Service vehicles and equipment	6,293,132	879,557	—	7,172,689
Communication equipment	17,732,299	1,678,382	—	19,410,681
Furniture and fixtures	530,689	38,348	—	569,037
Bus signs and shelters	2,966,793	436,828	—	3,403,621
	125,596,078	19,131,585	(25,948,548)	118,779,115
Total capital assets - depreciable, net	120,331,287	1,189,435	(14,567)	121,506,155
Total capital assets, net	$ 122,203,823	$ 1,189,435	$ (14,567)	$ 123,378,691

Capital asset activity for the Fiscal Year Ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets - nondepreciable				
Land	$ 1,872,536	$ —	$ —	$ 1,872,536
Total capital assets - nondepreciable	1,872,536	—	—	1,872,536
Capital assets - depreciable				
Buildings	53,854,696	2,898,814	(401)	56,753,109
Revenue vehicles	127,868,237	23,831,739	(2,803,225)	148,896,751
Service vehicles and equipment	8,045,309	507,929	(67,975)	8,485,263
Communication equipment	22,333,269	2,930,442	(160)	25,263,551
Furniture and fixtures	737,999	17,318	(2,563)	752,754
Bus signs and shelters	4,136,507	1,639,850	(420)	5,775,937
	216,976,017	31,826,092	(2,874,744)	245,927,365
Less: accumulated depreciation				
Buildings	18,536,013	2,013,959	—	20,549,972
Revenue vehicles	66,044,486	14,043,150	(2,564,443)	77,523,193
Service vehicles and equipment	5,529,766	830,280	(66,914)	6,293,132
Communication equipment	16,542,223	1,190,143	(67)	17,732,299
Furniture and fixtures	490,387	42,771	(2,469)	530,689
Bus signs and shelters	2,668,259	298,534	—	2,966,793
	109,811,134	18,418,837	(2,633,893)	125,596,078
Total capital assets - depreciable, net	107,164,883	13,407,255	(240,851)	120,331,287
Total capital assets, net	$ 109,037,419	$ 13,407,255	$ (240,851)	$ 122,203,823

Depreciation expense for the Fiscal Years Ended June 30, 2015 and 2014 was $19,131,585 and $18,418,837, respectively.

(5) Long-Term Liabilities

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

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

Long-term liability activity for the Fiscal Year Ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 2,954,379	$ 237,313	$ —	$ 3,191,692	$ 1,060,499
Loss reserve – insurance	9,847,000	4,550,086	(2,386,086)	12,011,000	2,427,420
Post-employment benefit liability	75,498,140	16,748,000	(1,287,600)	90,958,540	—
Long-term liabilities	$ 88,299,519	$ 21,535,399	$ (3,673,686)	$ 106,161,232	$ 3,487,919

(6) Union Contracts

Operators and maintenance personnel of the North District Fixed Route System are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period September 1, 2013 through August 31, 2016.

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 September 1, 2013 through August 31, 2016.

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

(7) Defined Benefit Pension Plans

(a) Plan Descriptions

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

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

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

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

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

At June 30, 2014, the following employees were covered by the Plan:

DTC Plan	
Active members	256
Inactive members or beneficiaries currently receiving benefits	52
Terminated, vested members	53
	361

At December 31, 2014, the following employees were covered by the benefit terms:

DART Plan	
Active members	648
Inactive members or beneficiaries currently receiving benefits	155
Terminated, vested members	72
	875

(b) Benefits

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

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

(c) Funding Policy

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

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

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

(d) Net Pension Liability (Asset)

The DTC Plan's net pension asset/liability for Fiscal Years Ended June 30, 2015 and 2014 was determined by an actuarial valuation as of Fiscal Years June 30, 2014 and 2013. Update procedures were used to roll forward the 2013 valuation results. There have been no changes between the measurement date of the net pension asset/liability and DTC's report date that are expected to have a significant effect on the net pension asset/liability. The total pension liability used to calculate net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Asset Class	Long-Term Expected Real Rate of Return
U.S. Equity	5.2%
International Equity	5.2%
Emerging Equity	5.7%
Core Fixed	3.0%
Interm IG Corp	3.8%
Bank Loans	2.7%
High Yield	4.3%
Emerging Debt	4.8%

The DART Plan's net pension asset/liability for calendar years ended December 31, 2013 and 2014 was determined by an actuarial experience study as of January 1, 2015. There have been no changes between the measurement date of the net pension asset/liability and DTC's report date that are expected to have a significant effect on the net pension asset/liability. The total pension liability used to calculate net pension liability was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

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

Asset Class	Long-Term Expected Real Rate of Return
U.S. Equity	5.2%
International Equity	5.2%
Emerging Equity	5.7%
Core Fixed	3.0%
Interm IG Corp	3.8%
Bank Loans	2.7%
High Yield	4.3%
Emerging Debt	4.8%
Cash Equivalent	0.8%

(e) Discount Rate

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

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

Changes in DTC's net pension liability (asset) for the Fiscal Year Ended June 30, 2014 and changes in the DART Plan for the calendar year ended December 31, 2014 were as follows:

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

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

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

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

(h) Expected and Actual Experience Difference

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

(i) Change in Assumptions

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

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

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

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

The components of pension expense for the DTC Plan and DART Plan for Fiscal Year 2015 were as follows:

	DTC Plan	DART Plan
Service cost	$ 840,320	$ 1,765,669
Interest	1,483,009	2,675,064
Member contributions	(30,251)	(1,262,888)
Benefit changes	-	1,029,691
Difference between actual and expected experience	-	4,126
Administrative expenses	115,578	133,417
Projected earnings on plan investments	(1,364,227)	(2,762,433)
Amortization of investment return differences	(215,783)	-
Pension expense	$ 828,646	$ 1,582,646

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$2,232,549	$ -
Pension plan investment return differences	-	706,367
Totals	$2,232,549	$706,367

Amounts reported as deferred outflows of resources will be recognized as a reduction to the net pension liability in Fiscal Year 2016. Amounts reported as deferred inflows of resources will be recognized in pension expense as follows for the Fiscal Years Ending June 30,:

2016	$ 184,430
2017	184,430
2018	184.430
2019	184,430
2020	(31,353)

(8) Operating Leases

DTC has several noncancelable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require DTC to pay for maintenance and liability insurance costs. Rental expenses were $36,218 and $29,205 for the Fiscal Years Ended June 30, 2015 and 2014, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows as of the Fiscal Year Ended June 30, 2015:

2016	$ 1,800
2017	1,800
2018	1,800
2019	1,800
2020	1,800
2021	—
	$ 9,000

DTC had an operating lease agreement for transit vehicle tires that expired on August 31, 2014. The lease agreement can be automatically renewed for two additional one-year periods, which extends the lease through August 31, 2016. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the Fiscal Years Ended June 30, 2015 and 2014, DTC incurred expenses related to this lease of $608,161 and $379,063, respectively.

(9) Economic Dependency

DTC's revenue from operating subsidies from State entities was approximately 67.0% and 62.0% of total revenue for the Fiscal Years Ended June 30, 2015 and 2014, respectively.

(10) Commitments and Contingencies

Litigation

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

(11) Risk Management

(a) Workers' Compensation Insurance

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

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

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

Subsequent to Fiscal Year 2003, DTC changed its coverage and was insured through Fiscal Year 2011 by the State. For Fiscal Years 2012 through 2014, DTC was insured through Liberty Mutual. In Fiscal Year 2015, DTC returned to being covered by the State and the premium was calculated as $9.00 per $100 on gross wages. For Fiscal Year 2014, the premium was calculated at 10.19% of the driver payroll and .35% of the administration payroll. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

(b) Auto Insurance

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

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

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

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

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

Delaware Transit Corporation

Notes to Financial Statements

June 30, 2015 and 2014

	Initial Loss Reserve Insurance Liability Established	Maximum Amount of Loss Under Self-Insured Retention Program (Per Occurrence)	Excess Commercial Coverage (Aggregate)
2015	$ 5,078,000	$ 1,000,000	$ ***
2014	4,510,000	1,000,000	***
2013	4,304,004	1,000,000	***
2012	3,828,996	1,000,000	***
2011	3,372,000	1,000,000	***
2010	3,467,000	1,000,000	***
2009	3,129,000	900,000	**
2008	3,106,000	900,000	**
2007 (1/15/07 – 6/30/07)	*	900,000	**
2007 (7/1/06 – 1/14/07)	2,607,350	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000
2005	2,763,367	2,300,000	5,000,000
2004	2,666,763	1,300,000	6,000,000
2003	2,561,000	1,300,000	10,000,000

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

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

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

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

Auto Loss Reserve Remaining for Fiscal Year	2015	2014
2015	$ 3,456,000	$ –
2014	3,355,000	3,764,000
2013	3,792,000	4,804,000
2012	742,000	2,391,000
2011	189,000	332,000
2010	116,000	675,000
2009	—	–
2008	—	41,000
2007	—	–
2000	4,000	4,000
	$ 11,654,000	$ 12,011,000

Changes in the balances of total claim liabilities during Fiscal Years 2015 and 2014 were as follows:

Fiscal Year	**Beginning Balance July 1**	**Current Year Estimated Claims and Changes in Estimates**	**Actual Claim Payments**	**Ending Balance June 30**
2015	$ 12,011,000	$ 5,180,731	$ (5,537,731)	$ 11,654,000
2014	$ 9,847,000	$ 4,550,086	$ (2,386,086)	$ 12,011,000

(12) Transfers

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

	2015	**2014**
Amounts transferred as operating assistance	$ 85,583,707	$ 83,878,200
Amounts transferred as pass-through grant revenues	1,311,539	1,567,737
Amounts transferred as capital funding for purchase of capital assets	6,020,341	5,892,019
Total transfers from DelDOT	$ 92,915,587	$ 91,337,956

(13) Other Post-Employment Benefits (OPEB)

Plan Description

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

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

Membership of the plan consisted of the following at Fiscal Year June 30, 2014:

Retirees and beneficiaries receiving benefits	148
Terminated plan members entitled to, but not yet receiving, the benefits	31
Active eligible plan members	817
Total	996

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

Eligibility

Contract employees:

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

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, 2015, DTC provided health insurance options through several providers.

Spouse and Survivor Coverage

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

Employee Contributions

No contributions are required by the employees.

Funding Policy

DTC funds the OPEB Trust on a pay-as-you-go basis with additional funding provided in the OPEB Trust on an ad-hoc basis. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee for the OPEB Trust and is responsible for the financial management of the OPEB Trust. The cash basis costs associated with these benefits was $1,399,775 and $1,287,600 for the Fiscal Years Ended June 30, 2015 and 2014, respectively.

Contributions

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

Annual OPEB Cost and Net Obligation

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

The following table shows the components of DTC's annual OPEB cost for Fiscal Year 2015 and the preceding year, the amount actually contributed to the plan, and DTC's net OPEB obligation:

Net OPEB obligation at June 30, 2014	$	90,958,540
Annual required contribution		12,868,000
Interest on net OPEB obligation		3,606,000
Adjustment to annual required contribution		(4,524,000)
Net OPEB obligation before contributions		102,908,540
Contributions made		(1,399,775)
Prefunding trust contribution		-
Net OPEB obligation at June 30, 2015	$	101,508,765

Net OPEB obligation at June 30, 2013	$	75,498,140
Annual required contribution		17,371,000
Interest on net OPEB obligation		2,992,000
Adjustment to annual required contribution		(3,615,000)
Net OPEB obligation before contributions		92,246,140
Contributions made		(1,287,600)
Prefunding trust contribution		-
Net OPEB obligation at June 30, 2014	$	90,958,540

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2015	$ 11,950,000	11.71%	$ 101,508,765
06/30/2014	16,748,000	7.69%	90,958,540
06/30/2013	15,671,000	7.62%	75,498,140

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 2.1% funded. The actuarial accrued liability was $104,434,000 and the actuarial value of assets was $2,188,606, resulting in an unfunded actuarial accrued liability (UAAL) of $102,245,394. The covered payroll (annual payroll of active employees covered by the plan) was $42,716,806 and the ratio of the UAAL to the covered payroll was 239.4%.

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

The schedule of funding progress, presented as required supplementary information following the notes to 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.

Actuarial Methods and Assumptions

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

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

2015	4.5%
2020	5.3%
2025	5.0%
2050	4.8%

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

(14) Deficit on Unrestricted Net Position

DTC has a deficit on unrestricted net position of $86,840,452 and $79,239,330 as of Fiscal Years Ended June 30, 2015 and 2014, respectively. The deficit was caused by the implementation of GASB No. 45, which required DTC to calculate and record the annual unfunded required contribution related to post-employment benefits provided to retirees, which does not negate a current cash contribution. See the financial impact in Note 13.

The deficit increased during Fiscal Year 2015 due to the implementation of GASB No. 68. See the financial impact in Note 2.

(15) Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to financial statements. All events and transactions have been evaluated through November 20, 2015, which is the date the financial statements were available to be issued.

(16) Reclassifications

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported changes in net position or net position.

REQUIRED SUPPLEMENTARY INFORMATION

DELAWARE TRANSIT CORPORATION

Required Supplementary Information

June 30, 2015 and 2014

Schedule of Funding Progress - 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

	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)
OPEB Trust	07/1/2012	$ 1,755,283	$ 121,627,000	$ (119,871,717)	1.44%	$ 34,537,878	(347.07)%
	07/1/2013	1,878,000	135,237,000	(133,359,000)	1.39%	38,546,221	(345.97)%
	07/1/2014	2,189,000	104,434,000	(102,245,000)	2.10%	42,716,806	(239.36)%

Delaware Transit Corporation

Required Supplementary Information

June 30, 2015 and 2014

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

(Dollar amounts in thousands)

The following provides an analysis of the changes in DTC's net pension liability (asset) as of Fiscal Year June 30, 2014:

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

Notes to Schedule

Benefit changes: None

Changes of assumptions: None

DELAWARE TRANSIT CORPORATION

Required Supplementary Information

June 30, 2015 and 2014

Schedule of Contributions

Last 10 Fiscal Years

(Dollar amounts in thousands)

DTC Plan, as of June 30,	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 1,156									
Contributions in relation to the actuarially determined contribution	1,158									
Contribution deficiency (excess)	$ (2)			Information for FY2013 and earlier is not available						
Covered-employee payroll	$ 12,099									
Contributions as a percentage of covered-employee payroll	9.57%									

DART Plan, as of December 31,	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 635	$ 773	$ 715	$ 598	$ 611	$ 859	$ 683			
Contributions in relation to the actuarially determined contribution	908	1,250	1,080	1,074	1,082	1,063	996		Information for FY2007 and earlier is not available	
Contribution deficiency (excess)	$ (273)	$ (477)	$ (365)	$ (476)	$ (471)	$ (204)	$ (313)			
Covered-employee payroll	$ 25,748	$ 24,788	$ 22,985	$ 22,847	$ 22,675	$ 22,072	$ 18,689			
Contributions as a percentage of covered-employee payroll	3.53%	5.04%	4.70%	4.70%	4.77%	4.82%	5.33%			

Continued…

DELAWARE TRANSIT CORPORATION

Schedule of Contributions (Continued)

June 30, 2015 and 2014

Notes to Schedule

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuations are performed every year.

DTC Plan methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen Entry Age
Amortization method	Level Dollar, Open
Remaining amortization period	30 years
Asset valuation method	Market value
Inflation	2.0%
Salary increases	2.5%, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with generational projection by Scale AA

DART Plan methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Remaining amortization period	15 years
Asset valuation method	Five-year market smoothed
Inflation	2.0%
Salary increases	4.0%, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service
Mortality	RP-2000 Blue Collar table without any future mortality improvements

SUPPLEMENTARY INFORMATION

DELAWARE TRANSIT CORPORATION

Schedule of Revenues and Expenses Compared to Budget

Year Ended June 30, 2015

	Budget (Unaudited)	Actual	Favorable (Unfavorable)
Operating revenues			
Passenger fares	$ 17,780,499	$ 18,452,285	$ 671,786
Advertising	500,000	586,879	86,879
Miscellaneous	1,100,000	1,522,452	422,452
Auxiliary transportation	600,000	711,243	111,243
Total operating revenues	19,980,499	21,272,859	1,292,360
Operating expenses before deprecation	112,932,211	123,021,961	(10,089,750)
Operating expenses in excess of operating revenues before depreciation	(92,951,712)	(101,749,102)	(8,797,390)
Nonoperating revenues (expenses)			
Federal operating assistance	7,368,005	7,475,681	107,676
Pass-through grant revenue	—	3,528,336	3,528,336
Pass-through grant expense	—	(4,962,061)	(4,962,061)
Investment income	—	—	—
Excess of nonoperating revenues over expenses	7,368,005	6,041,956	(1,326,049)
Transfers from DelDOT for operating purposes			
State operating assistance	85,583,707	85,583,707	—
State pass-through grant revenue	—	1,311,539	1,311,539
Total transfers for operating purposes	85,583,707	86,895,246	1,311,539
Income before contributions and depreciation, net of gains on retirements on property and equipment	$ —	$ (8,811,900)	$ (8,811,900)

DELAWARE TRANSIT CORPORATION

Schedule of Expenses by Mode – All Modes

Year Ended June 30, 2015

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Totals
Payroll expense					
Operator salaries	$ 25,669,773	$ —	$ —	$ —	$ 25,669,773
Other salaries	3,653,881	5,705,343	448,008	5,852,483	15,659,715
Fringe benefits	26,179,202	5,294,347	495,644	6,534,460	38,503,653
	55,502,856	10,999,690	943,652	12,386,943	79,833,141
Professional fees and services					
Professional and technical	5,266	—	6,171	2,618,579	2,630,016
Contract and maintenance	—	1,121,780	2,725,955	—	3,847,735
Security	—	—	41,622	433,382	475,004
Purchased transportation	14,229,078	—	—	—	14,229,078
Other	—	8,419	121,662	286,413	416,494
	14,234,344	1,130,199	2,895,410	3,338,374	21,598,327
Materials and supplies					
Fuel and lubes	8,695,544	128,168	—	—	8,823,712
Tires and tubes	855,656	9,577	—	—	865,233
Other materials	106,557	3,454,392	196,520	296,766	4,054,235
	9,657,757	3,592,137	196,520	296,766	13,743,180
Office and miscellaneous					
Utilities	—	—	—	921,805	921,805
Insurance	—	—	—	4,578,497	4,578,497
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	72,184	72,184
Travel and meetings	—	—	—	1,456,921	1,456,921
Advertising	—	—	—	369,578	369,578
Facilities	—	—	82,072	—	82,072
Other	—	—	—	366,256	366,256
	—	—	82,072	7,765,241	7,847,313
Total expenses	$ 79,394,957	$ 15,722,026	$ 4,117,654	$ 23,787,324	$ 123,021,961

DELAWARE TRANSIT CORPORATION

Schedule of Expenses by Mode – Fixed Route Directly Operated

Year Ended June 30, 2015

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Totals
Payroll expense					
Operator salaries	$ 12,636,842	$ —	$ —	$ —	$ 12,636,842
Other salaries	1,245,328	3,926,953	166,883	2,247,347	7,586,511
Fringe benefits	10,710,696	3,196,916	140,075	1,927,162	15,974,849
	24,592,866	7,123,869	306,958	4,174,509	36,198,202
Professional fees and services					
Professional and technical	2,206	—	2,399	899,238	903,843
Contract and maintenance	—	453,922	1,015,418	—	1,469,340
Security	—	—	16,182	168,499	184,681
Purchased transportation	—	—	—	—	—
Other	—	4,511	47,302	115,550	167,363
	2,206	458,433	1,081,301	1,183,287	2,725,227
Materials and supplies					
Fuel and lubes	5,052,262	48,611	—	—	5,100,873
Tires and tubes	578,205	3,660	—	—	581,865
Other materials	46,541	2,508,256	76,407	119,048	2,750,252
	5,677,008	2,560,527	76,407	119,048	8,432,990
Office and miscellaneous					
Utilities	—	—	—	358,398	358,398
Insurance	—	—	—	1,705,489	1,705,489
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	28,065	28,065
Travel and meetings	—	—	—	566,451	566,451
Advertising	—	—	—	310,743	310,743
Facilities	—	—	31,910	—	31,910
Other	—	—	—	149,641	149,641
	—	—	31,910	3,118,787	3,150,697
Total expenses	$ 30,272,080	$ 10,142,829	$ 1,496,576	$ 8,595,631	$ 50,507,116

DELAWARE TRANSIT CORPORATION

Schedule of Expenses by Mode – Paratransit Directly Operated

Year Ended June 30, 2015

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Totals
Payroll expense					
Operator salaries	$ 13,032,931	$ —	$ —	$ —	$ 13,032,931
Other salaries	2,247,289	1,640,083	244,523	3,117,272	7,249,167
Fringe benefits	15,040,575	1,739,705	257,065	3,333,797	20,371,142
	30,320,795	3,379,788	501,588	6,451,069	40,653,240
Professional fees and services					
Professional and technical	3,060	—	3,328	1,551,956	1,558,344
Contract and maintenance	—	477,055	1,487,826	—	1,964,881
Security	—	—	22,447	233,723	256,170
Purchased transportation	—	—	—	—	—
Other	—	3,908	65,612	149,885	219,405
	3,060	480,963	1,579,213	1,935,564	3,998,800
Materials and supplies					
Fuel and lubes	3,626,017	71,230	—	—	3,697,247
Tires and tubes	224,747	5,363	—	—	230,110
Other materials	53,085	711,659	105,983	156,043	1,026,770
	3,903,849	788,252	105,983	156,043	4,954,127
Office and miscellaneous					
Utilities	—	—	—	497,130	497,130
Insurance	—	—	—	2,498,946	2,498,946
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	38,929	38,929
Travel and meetings	—	—	—	785,717	785,717
Advertising	—	—	—	16,907	16,907
Facilities	—	—	44,261	—	44,261
Other	—	—	—	207,577	207,577
	—	—	44,261	4,045,206	4,089,467
Total expenses	$ 34,227,704	$ 4,649,003	$ 2,231,045	$ 12,587,882	$ 53,695,634

DELAWARE TRANSIT CORPORATION

Schedule of Expenses by Mode – Fixed Route Purchased Transportation

Year Ended June 30, 2015

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Totals
Payroll expense					
Operator salaries	$ —	$ —	$ —	$ —	$ —
Other salaries	101,207	104,951	27,821	337,760	571,739
Fringe benefits	272,681	274,250	75,621	922,797	1,545,349
	373,888	379,201	103,442	1,260,557	2,117,088
Professional fees and services					
Professional and technical	—	—	319	118,480	118,799
Contract and maintenance	—	185,508	169,282	—	354,790
Security	—	—	2,152	22,406	24,558
Purchased transportation	2,364,917	—	—	—	2,364,917
Other	—	—	6,290	15,364	21,654
	2,364,917	185,508	178,043	156,250	2,884,718
Materials and supplies					
Fuel and lubes	16,461	6,329	—	—	22,790
Tires and tubes	48,777	421	—	—	49,198
Other materials	5,026	220,078	10,160	15,830	251,094
	70,264	226,828	10,160	15,830	323,082
Office and miscellaneous					
Utilities	—	—	—	47,657	47,657
Insurance	—	—	—	284,324	284,324
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	3,732	3,732
Travel and meetings	—	—	—	75,323	75,323
Advertising	—	—	—	41,295	41,295
Facilities	—	—	4,243	—	4,243
Other	—	—	—	6,499	6,499
	—	—	4,243	458,830	463,073
Total expenses	$ 2,809,069	$ 791,537	$ 295,888	$ 1,891,467	$ 5,787,961

DELAWARE TRANSIT CORPORATION

Schedule of Expenses by Mode – Paratransit Purchased Transportation

Year Ended June 30, 2015

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Totals
Payroll expense					
Operator salaries	$ —	$ —	$ —	$ —	$ —
Other salaries	60,057	33,356	8,781	131,994	234,188
Fringe benefits	155,250	83,476	22,883	345,818	607,427
	215,307	116,832	31,664	477,812	841,615
Professional fees and services					
Professional and technical	—	—	125	46,292	46,417
Contract and maintenance	—	5,295	53,429	—	58,724
Security	—	—	841	8,754	9,595
Purchased transportation	1,071,297	—	—	—	1,071,297
Other	—	—	2,458	5,614	8,072
	1,071,297	5,295	56,853	60,660	1,194,105
Materials and supplies					
Fuel and lubes	804	1,998	—	—	2,802
Tires and tubes	3,927	133	—	—	4,060
Other materials	1,905	14,399	3,970	5,845	26,119
	6,636	16,530	3,970	5,845	32,981
Office and miscellaneous					
Utilities	—	—	—	18,620	18,620
Insurance	—	—	—	89,738	89,738
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	1,458	1,458
Travel and meetings	—	—	—	29,430	29,430
Advertising	—	—	—	633	633
Facilities	—	—	1,658	—	1,658
Other	—	—	—	2,539	2,539
	—	—	1,658	142,418	144,076
Total expenses	$ 1,293,240	$ 138,657	$ 94,145	$ 686,735	$ 2,212,777

DELAWARE TRANSIT CORPORATION

Schedule of Expenses by Mode – Rail

Year Ended June 30, 2015

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Totals
Payroll expense					
Operator salaries	$ —	$ —	$ —	$ —	$ —
Other salaries	—	—	—	18,110	18,110
Fringe benefits	—	—	—	4,886	4,886
	—	—	—	22,996	22,996
Professional fees and services					
Professional and technical	—	—	—	2,613	2,613
Contract and maintenance	—	—	—	—	—
Security	—	—	—	—	—
Purchased transportation	10,792,864	—	—	—	10,792,864
Other	—	—	—	—	—
	10,792,864	—	—	2,613	10,795,477
Materials and supplies					
Fuel and lubes	—	—	—	—	—
Tires and tubes	—	—	—	—	—
Other materials	—	—	—	—	—
	—	—	—	—	—
Office and miscellaneous					
Utilities	—	—	—	—	—
Insurance	—	—	—	—	—
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	—	—
Travel and meetings	—	—	—	—	—
Advertising	—	—	—	—	—
Facilities	—	—	—	—	—
Other	—	—	—	—	—
	—	—	—	—	—
Total expenses	$ 10,792,864	$ —	$ —	$ 25,609	$ 10,818,473

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

Robert Freed, Principal
Linda A. Pappajohn, Principal

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Delaware Transit Corporation (DTC), a blended component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware as of and for the Fiscal Year Ended June 30, 2015, and the related notes to the financial statements, which collectively comprise DTC's basic financial statements, and have issued our report thereon dated November 20, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings* as Finding 2015-1 to be a material weakness.

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

The Board of Trustees

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings* as Finding 2015-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DTC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of DTC in a separate letter dated November 20, 2015.

DTC's Response to Findings

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

Purpose of this Report

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

Santora CPA Group

November 20, 2015
Newark, Delaware

Delaware Transit Corporation

Schedule of Findings

June 30, 2015

Finding 2015-1: Financial Reporting (Material Weakness)

Background

Throughout the year, DTC operates and records transactions primarily on the cash basis of accounting using PeopleSoft. The only accrual accounts maintained during the year are accounts payable and accounts receivable. This differs from the accrual basis of accounting, which is DTC's basis for reporting information included in the financial statements in accordance with GAAP.

Since PeopleSoft is not used throughout the year to capture transactions on the accrual basis of accounting, the year-end compilation of DTC's financial statements is complex and heavily reliant on manual adjustments to properly record accruals and other non-routine transactions.

Condition

DTC management has the overall responsibility for the preparation and fair presentation of their financial statements. The State's Division of Accounting (DOA) is responsible for the compilation of DTC's financial statements in accordance with GAAP. During our audit, we identified the following deficiencies in internal control over financial reporting:

- GASB Nos. 68 and 71 were implemented by DTC in Fiscal Year 2015. The compiled financial statements did not calculate the impact of GASB No. 68 correctly, and did not consider the impact of GASB No. 71. In addition, the compiled financial statements were missing certain disclosures required for compliance with GASB Nos. 68 and 71. The impact of adjusting entries to correctly present the impact of GASB Nos. 68 and 71 was $2.2 million.

- Reconciliations of revenue and expenses (proving out a rollforward of cash basis revenues and expenses from PeopleSoft, adding in the impact of accrual entries, and showing an adjusted total that agrees to financial statement line items) was not provided with the compiled financial statements. This type of reconciliation control is necessary to ensure that the financial statements are complete and accurate and reflect all activity of DTC for the fiscal year.

- Several amounts reported in the statements of cash flows were adjusted to reconcile to supporting audit documentation and workpapers.

- Rideshare Program expenses of $454,140 were double counted in the compiled financial statements; these expenses were captured in both professional fees and services and pass-through grant expenses.

- The Federal Transit Administration Rideshare grant subsidy of $294,157 was improperly included in pass-through grant expense; the amount should have been classified as federal operating assistance.

- The compiled financial statements did not group activity consistently in Fiscal Year 2015 for several line items on the statements of revenues, expenses, and changes in net position. Groupings of activity that roll up into the following line items were changed for Fiscal Year 2015: miscellaneous and auxiliary transportation operating revenues, federal operating assistance, and depreciation expense. The corresponding reclassifications to 2014 activity, needed to make the financials comparable and presented consistently, were not made to the compiled financial statements provided for audit.

Criteria

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

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

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

Cause

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

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

Effect

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

Recommendation

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

Views of Responsible Officials

Fiscal Year 2015 was the second year that the DOA compiled DTC's financial statements, and we are gradually realizing the goals intended in doing so: increased skill and understanding of our financial statements and the processes required to produce them among members of our team, improved controls, and the ability to produce financial statements more frequently and efficiently in order to improve management information and decision making. The conditions cited are reminders of the importance of communication, and we acknowledge an improvement opportunity going forward between DTC and the DOA. We intend to schedule regular meetings with the DOA during the report compilation process to ensure the GAAP package and any adjusting entries are thoroughly understood and agreed to. We will also be engaging the DOA on both the conditions and deficiencies you have communicated.

Finding 2015-2: Notice of Personnel Action (NPA) Forms (Significant Deficiency)

Background

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

Condition

In completing payroll internal control testing for a sample of 11 employees, we noted that 10 of the 11 NPA forms were not audited by a second PeopleSoft Administrator, as required by DTC's internal control policies and procedures. Although the review control was not performed for those 10 forms, the personnel information included therein was properly reflected in the PeopleSoft system; therefore, all employee information tested was properly updated in the system based on comparison to completed NPA forms.

Criteria

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials

In the future, the NPA forms will be audited by a second PeopleSoft Administrator, and they will sign the NPA form to indicate that the audit is complete. In addition, we will review the NPA forms for the time period in question to ensure no misstatements.