



**DELAWARE TRANSIT CORPORATION**

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

# DELAWARE TRANSIT CORPORATION

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Balance Sheets	7
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Required Supplementary Information	27
Additional Information:	
Schedule of Revenues and Expenses Compared to Budget	28
Schedules of Expenses by Mode:	
All Modes	29
Fixed Route Directly Operated	30
Paratransit Directly Operated	31
Fixed Route Purchased Transportation	32
Paratransit Purchased Transportation	33
Rail	34
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## Independent Auditors' Report

The Board of Directors  
Delaware Transportation Authority  
Delaware Transit Corporation  
Dover, Delaware:

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 blended component unit of the State of Delaware, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of DTC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 and required supplementary information for pensions and other post-employment benefits on page 27, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the



required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on DTC's basic financial statements as a whole. The supplemental information included in the schedule of revenues and expenses compared to budget and schedules of expenses by mode are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplemental information included in the schedule of revenues and expenses compared to budget and schedules of expenses by mode have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information included in the schedule of revenues and expenses compared to budget and schedules of expenses by mode is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

October 26, 2012

## **DELAWARE TRANSIT CORPORATION**

### **Management's Discussion and Analysis (Unaudited)**

June 30, 2012 and 2011

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, 2012 and 2011.

#### **Background**

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates DART First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of the Delaware Administration for Regional Transit, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 225 fixed route and 308 paratransit vehicles on 70 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 38 park-and-ride lots and 13 park-and-pool lots with an estimated 5,303 parking spaces. DTC maintains approximately 2,739 bus stops throughout the State of Delaware (the State), with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carry over 12.8 million riders per year.

#### **Financial Highlights**

- The 2012 operating revenues were approximately \$16.8 million and were 3.7% higher than 2011 operating revenues. Passenger revenues contributed to the increase, primarily due to an increase in the volume of passengers using DTC's services.
- Total 2012 operating expenses before depreciation were approximately \$114.4 million and were \$4 million higher than 2011 operating expenses. The increase in operating expenses before depreciation is largely due to increased costs for wages, benefits, and consumables.
- A \$21.4 million investment was made in capital assets during the current year (the funding was \$4.7 million in state capital grants, \$16.6 million in federal capital grants, and \$0.1 million in state operating dollars). This is primarily attributable to the purchase of revenue vehicles.

#### **Overview of the Financial Statements**

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

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

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 assets. All assets and liabilities associated with the operation of DTC are included in the balance sheets.

**DELAWARE TRANSIT CORPORATION**

Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

**Financial Analysis of DTC**

***Balance Sheets***

Total assets increased 3.1% to \$143.3 million. Total liabilities increased 27.4% to \$78.6 million in 2012 and 39.3% to \$61.7 million in 2011 mostly due to increases in other post-employment benefits payable. Total net assets at June 30, 2012 were approximately \$64.7 million, a 16.3% decrease from June 30, 2011.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Percentage change 2012 – 2011</u>	<u>Percentage change 2011 – 2010</u>
Current assets	\$ 31.4	31.6	32.1	(0.6)%	(1.6)%
Capital assets	108.9	104.8	105.9	3.9	(1.0)
Other noncurrent assets	3.0	2.6	2.1	15.4	23.8
Total assets	<u>143.3</u>	<u>139.0</u>	<u>140.1</u>	<u>3.1</u>	<u>(0.8)</u>
Current liabilities	9.8	11.8	8.9	(16.9)	32.6
Noncurrent liabilities	68.8	49.9	35.4	37.9	41.0
Total liabilities	<u>78.6</u>	<u>61.7</u>	<u>44.3</u>	<u>27.4</u>	<u>39.3</u>
Net assets:					
Restricted	3.0	2.6	2.1	15.4	23.8
Invested in capital assets	108.9	104.8	105.9	3.9	(1.0)
Unrestricted	(47.2)	(30.1)	(12.2)	56.8	146.7
Total net assets	<u>\$ 64.7</u>	<u>77.3</u>	<u>95.8</u>	<u>(16.3)%</u>	<u>(19.3)%</u>

The increase in total liabilities was due to an increase in other post-employment benefits payable. The large decrease in unrestricted net assets is primarily the result of DTC's recognition of other post-employment expenses of \$17.1 million and \$15.8 million for fiscal years ended June 30, 2012 and 2011, respectively, and not providing advance funding for the annual required contribution.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

#### *Change in Net Assets*

The decrease in net assets as of June 30, 2012 was approximately \$12.5 million, which is a decrease in net assets of 16.2% over 2011. The increase in DTC's 2012 total operating revenues of \$0.6 million is primarily due to increased passenger revenues. Total operating expenses increased 3.6% to approximately \$131.6 million.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Percentage change 2012 – 2011</u>	<u>Percentage change 2011 – 2010</u>
Operating revenues:					
Passenger revenue	\$ 14.6	14.0	13.5	4.3%	3.7%
Other operating revenue	<u>2.2</u>	<u>2.2</u>	<u>1.8</u>	<u>—</u>	<u>22.2</u>
Total operating revenues	<u>16.8</u>	<u>16.2</u>	<u>15.3</u>	<u>3.7</u>	<u>5.9</u>
Operating expenses:					
Total operating expenses before depreciation, net of gains on retirements of property and equipment	114.4	110.4	102.4	3.6	7.8
Depreciation, net of gains on retirements of property and equipment	<u>17.2</u>	<u>16.6</u>	<u>15.3</u>	<u>3.6</u>	<u>8.5</u>
Total operating expenses	<u>131.6</u>	<u>127.0</u>	<u>117.7</u>	<u>3.6</u>	<u>7.9</u>
Operating loss	(114.8)	(110.8)	(102.4)	3.6	8.2
Nonoperating revenues, net	1.2	2.1	2.4	(42.9)	(12.5)
Capital contributions	16.6	14.1	14.9	17.7	(5.4)
Transfers from DelDOT	<u>84.4</u>	<u>76.2</u>	<u>82.2</u>	<u>10.8</u>	<u>(7.3)</u>
Change in net assets	(12.6)	(18.4)	(2.9)	(31.5)	534.5
Total net assets – beginning of year	<u>77.3</u>	<u>95.7</u>	<u>98.6</u>	<u>(19.2)</u>	<u>(2.9)</u>
Total net assets – end of year	<u>\$ 64.7</u>	<u>77.3</u>	<u>95.7</u>	<u>(16.3)%</u>	<u>(19.2)%</u>

The increases in operating expenses over 2012 and 2011 are due to the increased costs relating to salaries and fringe benefits, as well as other post-employment benefits.

Capital contributions were down from \$14.9 million in 2010 to \$14.1 million in 2011 and were up from \$14.1 million in 2011 to \$16.6 million in 2012 due to DTC's timing related to vehicle replacement and expansion schedule.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

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

As of June 30, 2012 and 2011, DTC had approximately \$209.9 million and \$192.6 million, respectively, invested in capital assets, which includes land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's capital assets at June 30, 2012 and 2011 totaled approximately \$108.9 million and \$104.8 million, respectively.

Net capital assets increased \$4.1 million and decreased \$1.1 million during the years ended June 30, 2012 and 2011, respectively. The increase in capital assets for the year ended June 30, 2012 is primarily attributed to the purchase of 13 expansion revenue vehicles and 78 replacement revenue vehicles amounting to \$21.4 million, offset by depreciation expense of \$17.2 million. The decrease in capital assets for the year ended June 30, 2011 is attributed to the purchase of 11 expansion revenue vehicles and 80 replacement revenue vehicles amounting to \$15.8 million, offset by depreciation expense of \$16.9 million.

Assets disposed of during 2012 and 2011 totaled \$4.1 million and \$11.3 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 2013 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 2013 total operating budget is \$100.1 million, which is 4.2% higher than fiscal year 2012's operating budget. The capital budget is \$52.7 million, which authorizes funding for the purchase of replacement and expansion transit vehicles, facility construction, and rail projects.

Governmental Accounting Standards Board (GASB) 45 was effective for DTC beginning in 2008. DTC provides post-retirement healthcare benefits to all employees who retire from DTC after meeting eligibility requirements. GASB 45 requires calculation of the unfunded actuarial accrued liability and annual required contribution related to these post-retirement benefits. The pay-as-you-go cash basis costs associated with these benefits were \$1.1 million and \$1.0 million for the years ended June 30, 2012 and 2011, respectively. The impact on the financial statements based upon this standard was the recognition of \$17.1 million and \$15.8 million in benefit expenses for the years ended June 30, 2012 and 2011, respectively. DTC expects a similar impact on the 2013 financial statements.

#### **Contacting DTC's Financial Management**

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

**DELAWARE TRANSIT CORPORATION**

Balance Sheets

June 30, 2012 and 2011

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents	\$ 24,153,920	25,781,756
Receivables:		
Trade	1,963,104	776,426
State	80,541	210,291
Federal	156,124	236,114
Inventories of supplies and fuel	3,930,822	3,614,992
Escrow insurance deposits	316,960	275,967
Prepaid expenses	786,166	684,217
Total current assets	<u>31,387,637</u>	<u>31,579,763</u>
Noncurrent assets:		
Capital assets	209,891,905	192,564,836
Less accumulated depreciation	<u>100,987,963</u>	<u>87,775,217</u>
	108,903,942	104,789,619
Prepaid pension – restricted	<u>3,019,873</u>	<u>2,604,418</u>
Total noncurrent assets	<u>111,923,815</u>	<u>107,394,037</u>
Total assets	<u>\$ 143,311,452</u>	<u>138,973,800</u>

**DELAWARE TRANSIT CORPORATION**

Balance Sheets

June 30, 2012 and 2011

<b>Liabilities and Net Assets</b>	<b>2012</b>	<b>2011</b>
Current liabilities:		
Accounts payable	\$ 3,667,089	3,159,333
Accrued payroll and related expenses	1,995,032	3,235,787
Compensated absences	1,079,746	1,180,702
Other accrued expenses	116,500	116,500
Insurance loss reserve	2,922,308	4,130,201
Total current liabilities	<u>9,780,675</u>	<u>11,822,523</u>
Noncurrent liabilities:		
Compensated absences – net of current portion	1,696,848	1,826,355
Insurance loss reserve – net of current portion	6,086,692	2,944,799
Postemployment benefits payable	61,020,848	45,115,000
Total liabilities	<u>68,804,388</u>	<u>49,886,154</u>
Total liabilities	<u>78,585,063</u>	<u>61,708,677</u>
Net assets:		
Restricted – pension obligations	3,019,873	2,604,418
Invested in capital assets	108,903,942	104,789,619
Unrestricted	(47,197,426)	(30,128,914)
Total net assets	<u>64,726,389</u>	<u>77,265,123</u>
Total liabilities and net assets	<u>\$ 143,311,452</u>	<u>138,973,800</u>

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Operating revenues:		
Passenger fares	\$ 14,573,514	13,962,917
Advertising	489,258	472,077
Miscellaneous	930,117	999,832
Auxiliary transportation	829,591	707,604
Total operating revenues	16,822,480	16,142,430
Operating expenses:		
Vehicle operations	72,990,357	67,664,687
Maintenance:		
Vehicle	14,058,878	13,298,311
Nonvehicle	2,679,686	3,318,868
General administration	24,660,126	26,167,188
Total operating expenses before depreciation	114,389,047	110,449,054
Depreciation, net of gain on retirements of property and equipment	17,186,796	16,568,187
Total operating expenses	131,575,843	127,017,241
Operating loss	(114,753,363)	(110,874,811)
Nonoperating revenues (expenses):		
Federal operating assistance	3,371,795	3,356,760
Pass-through grant revenue	1,555,100	1,091,359
Pass-through grant expense	(3,831,938)	(2,382,548)
Investment income	62,028	62,029
Excess of nonoperating revenues over nonoperating expenses	1,156,985	2,127,600
Loss before contributions and transfers	(113,596,378)	(108,747,211)
Capital contributions	16,672,423	14,050,896
Transfers from DelDOT	84,385,221	76,219,079
Change in net assets	(12,538,734)	(18,477,236)
Total net assets – beginning of year	77,265,123	95,742,359
Total net assets – end of year	\$ 64,726,389	77,265,123

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from passengers	\$ 13,386,836	13,743,675
Payments to suppliers	(40,698,824)	(38,174,230)
Payments to employees	(54,740,381)	(51,966,290)
Insurance claims paid	(2,906,689)	(4,027,340)
Other receipts	2,248,966	2,179,513
Net cash used in operating activities	<u>(82,710,092)</u>	<u>(78,244,672)</u>
Cash flows from noncapital financing activities:		
Federal operating subsidies	3,371,795	3,356,760
Pass-through grant revenue receipts	1,555,100	1,091,359
Pass-through grant revenue payments	(3,831,938)	(2,382,547)
Transfers from DelDOT	79,719,909	74,677,861
Net cash provided by noncapital financing activities	<u>80,814,866</u>	<u>76,743,433</u>
Cash flows from capital and related financing activities:		
Proceeds from capital contributions	16,752,413	13,847,908
Transfers from DelDOT – capital	4,795,061	1,380,610
Acquisition of capital assets	(21,418,213)	(15,800,143)
Proceeds from sale of equipment	117,094	360,474
Net cash provided by (used in) capital and related financing activities	<u>246,355</u>	<u>(211,151)</u>
Cash flows from investing activities:		
Payments (to) from insurance escrow account	(40,993)	35,570
Investment income received	62,028	62,029
Net cash provided by investing activities	<u>21,035</u>	<u>97,599</u>
Net decrease in cash and cash equivalents	(1,627,836)	(1,614,791)
Cash and cash equivalents – beginning	<u>25,781,756</u>	<u>27,396,547</u>
Cash and cash equivalents – ending	<u>\$ 24,153,920</u>	<u>25,781,756</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (114,753,363)	(110,874,811)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation, net of gains on retirements of property and equipment	17,186,796	16,568,187
Changes in assets and liabilities:		
Increase in trade accounts receivable	(1,186,678)	(219,243)
Increase in inventories	(315,830)	(157,175)
Increase in prepaid expenses	(101,949)	(402,363)
Increase in prepaid pension	(415,455)	(546,112)
Increase in accounts payable	507,757	1,534,403
Increase in insurance loss reserve	1,934,000	655,000
Increase (decrease) in compensated absences	(230,463)	212,905
Increase in other accrued expenses	—	33,915
Increase (decrease) in accrued payroll and related expenses	(1,240,755)	221,622
Increase in post-employment benefits	15,905,848	14,729,000
Net cash used in operating activities	<u>\$ (82,710,092)</u>	<u>(78,244,672)</u>

See accompanying notes to financial statements.

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2012 and 2011

### (1) Authorizing Legislation

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

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

### (2) Significant Accounting Policies

#### (a) Reporting Entity

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

#### (b) Basis of Accounting

DTC operates as a special-purpose government engaged solely in business-type activities. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of the timing of the related cash flows.

#### (c) Cash and Cash Equivalents

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

Included in cash at June 30, 2012 and 2011 was \$8,692,040 and \$6,799,033, respectively, which will be utilized to fund the remaining unpaid loss insurance liability (note 11) less the escrow insurance deposits.

#### (d) Inventories

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

#### (e) Capital Assets

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

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2012 and 2011

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

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

**(f) *Compensated Absences***

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

**(g) *Customer Fares***

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

**(h) *Allowance for Uncollectible Accounts***

Management charges revenue with doubtful accounts when they are considered uncollectible. At June 30, 2012 and 2011, there was no allowance for doubtful accounts.

**(i) *Management Estimates***

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

**(j) *Revenues and Expenses***

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

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

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

**(l) *Financial Accounting Standards Board (FASB) Pronouncements***

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

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2012 and 2011

#### (3) Cash and Investments

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

DTC follows the guidelines and requirements issued and adopted by the Cash Management Policy Board of the State. The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to DTC. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds*, all deposits of DTC are categorized as "DTC Accounts."

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

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

Deposits – All deposits are held by one financial institution and are carried at cost, which approximates market value. The carrying amounts of DTC's deposits at June 30, 2012 and 2011 were \$24,153,920 and \$25,781,756, respectively, and the bank balances were \$25,749,451 and \$26,384,063, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The entire bank balances at June 30, 2012 and 2011 of \$25,957,314 and \$26,384,063, respectively, were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by DTC's Trustee, in DTC's name, for the remainder. At June 30, 2012 and 2011, noninterest bearing accounts had unlimited FDIC coverage, and interest bearing accounts were covered by the FDIC for \$250,000.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

**(4) Capital Assets**

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 1,872,536	—	—	1,872,536
Total capital assets not being depreciated	<u>1,872,536</u>	<u>—</u>	<u>—</u>	<u>1,872,536</u>
Capital assets being depreciated:				
Buildings	48,271,796	3,687,915	—	51,959,711
Revenue vehicles	113,296,589	14,979,441	(3,501,293)	124,774,737
Service vehicles and equipment	7,498,998	444,355	(26,650)	7,916,703
Communication equipment	16,940,392	1,770,651	—	18,711,043
Furniture and fixtures	693,241	25,302	(6,989)	711,554
Bus signs and shelters	3,991,284	510,549	(556,212)	3,945,621
	<u>190,692,300</u>	<u>21,418,213</u>	<u>(4,091,144)</u>	<u>208,019,369</u>
Less accumulated depreciation:				
Buildings	14,862,169	1,781,147	—	16,643,316
Revenue vehicles	50,485,689	13,742,956	(3,446,072)	60,782,573
Service vehicles and equipment	4,081,541	798,007	(24,873)	4,854,675
Communication equipment	15,271,236	588,132	—	15,859,368
Furniture and fixtures	346,057	82,887	(6,989)	421,955
Bus signs and shelters	2,728,525	249,883	(552,332)	2,426,076
	<u>87,775,217</u>	<u>17,243,012</u>	<u>(4,030,266)</u>	<u>100,987,963</u>
Total capital assets being depreciated, net	<u>102,917,083</u>	<u>4,175,201</u>	<u>(60,878)</u>	<u>107,031,406</u>
Total capital assets, net	<u>\$ 104,789,619</u>	<u>4,175,201</u>	<u>(60,878)</u>	<u>108,903,942</u>

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 1,872,536	—	—	1,872,536
Total capital assets not being depreciated	<u>1,872,536</u>	<u>—</u>	<u>—</u>	<u>1,872,536</u>
Capital assets being depreciated:				
Buildings	42,023,678	6,248,118	—	48,271,796
Revenue vehicles	115,414,926	8,676,696	(10,795,033)	113,296,589
Service vehicles and equipment	7,405,399	326,849	(233,250)	7,498,998
Communication equipment	16,905,336	36,816	(1,760)	16,940,392
Furniture and fixtures	479,191	215,958	(1,908)	693,241
Bus signs and shelters	3,986,906	295,706	(291,328)	3,991,284
	<u>186,215,436</u>	<u>15,800,143</u>	<u>(11,323,279)</u>	<u>190,692,300</u>
Less accumulated depreciation:				
Buildings	13,346,471	1,515,698	—	14,862,169
Revenue vehicles	47,885,409	13,324,155	(10,723,875)	50,485,689
Service vehicles and equipment	3,509,054	803,342	(230,855)	4,081,541
Communication equipment	14,374,049	897,308	(121)	15,271,236
Furniture and fixtures	282,374	65,253	(1,570)	346,057
Bus signs and shelters	2,772,477	244,733	(288,685)	2,728,525
	<u>82,169,834</u>	<u>16,850,489</u>	<u>(11,245,106)</u>	<u>87,775,217</u>
Total capital assets being depreciated, net	<u>104,045,602</u>	<u>(1,050,346)</u>	<u>(78,173)</u>	<u>102,917,083</u>
Total capital assets, net	<u>\$ 105,918,138</u>	<u>(1,050,346)</u>	<u>(78,173)</u>	<u>104,789,619</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$17,243,012 and \$16,850,489, respectively.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

**(5) Long-Term Liabilities**

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Compensated absences	\$ 3,007,057	—	(230,463)	2,776,594	1,079,746
Loss reserve – insurance	7,075,000	4,840,689	(2,906,689)	9,009,000	2,922,308
Post-employment benefit liability	45,115,000	15,905,848	—	61,020,848	—
Long-term liabilities	<u>\$ 55,197,057</u>	<u>20,746,537</u>	<u>(3,137,152)</u>	<u>72,806,442</u>	<u>4,002,054</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Compensated absences	\$ 2,794,152	212,905	—	3,007,057	1,180,702
Loss reserve – insurance	6,420,000	4,682,340	(4,027,340)	7,075,000	4,130,201
Post-employment benefit liability	30,386,000	15,772,000	(1,043,000)	45,115,000	—
Long-term liabilities	<u>\$ 39,600,152</u>	<u>20,667,245</u>	<u>(5,070,340)</u>	<u>55,197,057</u>	<u>5,310,903</u>

**(6) Union Contracts**

Operators and maintenance personnel of the North District Fixed Route System are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007. As of June 30, 2012, DTC is still negotiating terms for a new contract with the Amalgamated Transit Union, AFL-CIO, Local 842.

Paratransit Specialists statewide and South District Fixed Route Operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008. As of June 30, 2012, DTC is still negotiating terms for a new contract with the Amalgamated Transit Union, AFL-CIO, Local 842.

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

**(7) Defined Benefit Pension Plans**

**(a) Plan Descriptions**

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

the Contributory Pension Plan, for all full-time members of Local 842, Amalgamated Transit Union and Local 32, Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

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

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

	<u>DTC pension plan</u>	<u>Contributory pension plan</u>
Contribution rates:		
Employer	*	5.00%
Participants	N/A	5.00
Annual pension cost	\$ 996,827	658,363
Contributions made	996,777	1,073,948
Actuarial valuation date	07/01/11	01/01/12
Actuarial cost method	Frozen initial liability	Entry age normal
Amortization method	Open Level Dollar	Open Level Percent
Remaining amortization period	30	15
Asset valuation method	Market	Five-Year Smoothed
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	2.50	4.00

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

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

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

	<u><b>DTC pension plan</b></u>	<u><b>Contributory pension plan</b></u>
	<u><b>June 30, 2012</b></u>	<u><b>December 31, 2011</b></u>
For the year ended:		
Annual Required Contribution (ARC)	\$ 996,827	594,277
Interest on Net Pension Obligation (NPO)	8,202	(189,959)
Actuarial adjustment	(8,202)	254,045
Annual Pension Cost (APC)	996,827	658,363
Less actual contributions	(996,777)	(1,073,948)
Increase (decrease) in NPO	50	(415,585)
Net pension obligation (asset), beginning of the year	109,368	(2,713,706)
Net pension obligation (asset), end of the year	\$ 109,418	(3,129,291)
	<u><b>June 30, 2011</b></u>	<u><b>December 31, 2010</b></u>
For the year ended:		
Annual Required Contribution (ARC)	\$ 1,111,548	579,883
Interest on Net Pension Obligation (NPO)	8,196	(151,732)
Actuarial adjustment	(8,196)	107,530
Annual Pension Cost (APC)	1,111,548	535,681
Less actual contributions	(1,111,468)	(1,081,793)
Increase (decrease) in NPO	80	(546,112)
Net pension obligation (asset), beginning of the year	109,288	(2,167,594)
Net pension obligation (asset), end of the year	\$ 109,368	(2,713,706)

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2012 and 2011

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

<b>Three – Year Trend Information</b>					
	<b>Plan year ended</b>	<b>Contribution made</b>	<b>Annual pension cost (APC)</b>	<b>Percentage of APC contributed</b>	<b>Net pension plan asset (liability)</b>
DTC pension plan	06/30/2010	\$ 1,033,487	1,033,998	99.95%	\$ (109,288)
	06/30/2011	1,111,468	1,111,548	99.99	(109,368)
	06/30/2012	996,777	996,827	99.99	(109,418)
Contributory pension plan	12/31/2009	\$ 1,063,098	674,249	157.67%	\$ 2,167,594
	12/31/2010	1,081,793	535,681	201.95	2,713,706
	12/31/2011	1,073,948	658,363	163.12	3,129,291

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

<b>Schedules of Funding Progress</b>							
	<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Excess (deficit) of assets over AAL (a-b)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>Excess (deficit) as a percentage of covered payroll ((a-b)/c)</b>
DTC pension plan	07/1/2011	\$ 15,121,491	16,236,313	(1,114,822)	93.13%	\$ 11,253,210	(9.91)%
Contributory pension plan	01/1/2012	30,863,722	32,171,013	(1,307,291)	95.94	22,985,063	(5.69)

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

#### (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 \$27,643 and \$26,722 for the years ended June 30, 2012 and 2011, respectively.

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2012 and 2011

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

2013	\$	3,800
2014		1,800
2015		1,800
2016		1,800
2017		1,800
2018 – 2020		5,400
	\$	<u>16,400</u>

DTC had an operating lease agreement for transit vehicle tires that expired on May 19, 2009. DTC is continuing to operate under the old contract as a new one has not been negotiated yet. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2012 and 2011, DTC incurred expenses related to this lease of \$265,853 and \$248,578, respectively.

### (9) Economic Dependency

DTC's revenue from operating subsidies from State entities was approximately 76% and 77% of total revenue for the years ended June 30, 2012 and 2011, 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.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2012 and 2011

Subsequent to fiscal year 2003, DTC changed its coverage and was insured through the State. Under the State program, DTC paid a premium calculated as \$7.36 and \$4.50 per \$100 of payroll for the years ended June 30, 2012 and 2011, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

**(b) Auto Insurance**

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

For years prior to 2003, DTC would establish 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 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 \$300,000 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.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2012 and 2011

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

	<b>Initial loss reserve insurance liability established</b>	<b>Loss under self-insured retention program (per occurrence)</b>	<b>Excess commercial coverage (aggregate)</b>
2003	\$ 2,561,000	1,300,000	10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000
2007 (7/1/06 – 1/14/07)	2,607,350	2,300,000	5,000,000
2007 (1/15/07 – 6/30/07)	*	900,000	**
2008	3,106,000	900,000	**
2009	3,129,000	900,000	**
2010	3,467,000	1,000,000	***
2011	3,372,000	1,000,000	***
2012	3,828,996	1,000,000	***

\* 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 insurance.

The components of the remaining insurance loss reserve on DTC's balance sheets were as follows at June 30:

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

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

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

**(12) Transfers**

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

	<u>2012</u>	<u>2011</u>
Amounts transferred as operating assistance	\$ 77,521,008	73,524,091
Amounts transferred as pass-through grant revenues	2,198,901	1,153,770
Amounts transferred as capital funding for purchase of capital assets	4,665,312	1,541,218
Total transfers from DelDOT	<u>\$ 84,385,221</u>	<u>76,219,079</u>

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

*Plan Description*

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

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

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

Retirees and beneficiaries receiving benefits	\$ 97
Terminated plan members entitled to, but not yet receiving, the benefits	30
Active eligible plan members	<u>785</u>
Total	<u>\$ 912</u>

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2012 and 2011

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, 2012, DTC provided health insurance options through several providers.

#### ***Spouse and Survivor Coverage***

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

#### ***Employee Contributions***

No contributions are required by the employees.

#### ***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 were \$1,168,152 and \$1,042,565 for the years ended June 30, 2012 and 2011, 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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2012 and 2011

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 2012 and the preceding year, the amount actually contributed to the plan, and DTC’s net OPEB obligation:

Net OPEB obligation at June 30, 2010	\$	30,386,000
Annual required contribution		15,727,000
Interest on net OPEB obligation		1,215,000
Adjustment to annual required contribution		<u>(1,170,000)</u>
Net OPEB obligation before contributions		46,158,000
Contributions made		(1,043,000)
Prefunding trust contribution		<u>—</u>
Net OPEB obligation at June 30, 2011	\$	<u>45,115,000</u>
Net OPEB obligation at June 30, 2011	\$	45,115,000
Annual required contribution		17,074,000
Interest on net OPEB obligation		1,799,000
Adjustment to annual required contribution		<u>(1,799,000)</u>
Net OPEB obligation before contributions		62,189,000
Contributions made		(1,168,152)
Prefunding trust contribution		<u>—</u>
Net OPEB obligation at June 30, 2012	\$	<u>61,020,848</u>

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

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
06/30/2012	\$ 17,074,000	6.84%	\$ 61,020,848
06/30/2011	15,772,000	6.61	45,115,000
06/30/2010	11,810,000	20.02	30,386,000

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2012 and 2011

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

As of July 1, 2011, the most recent actuarial valuation date, the plan was 1.30% funded. The actuarial accrued liability was \$125,866,000, and the actuarial value of assets was \$1,605,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$124,261,000. The covered payroll (annual payroll of active employees covered by the plan) was \$31,883,191, and the ratio of the UAAL to the covered payroll was 389.74%.

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

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

DTC has a deficit on unrestricted net assets of \$47,197,426 and \$30,128,914 as of June 30, 2012 and 2011, respectively. The deficit was caused by the implementation of GASB 45, which required DTC to calculate and record the annual unfunded required contribution related to post-employment benefits provided to retirees. See the financial impact in note 13.

**REQUIRED SUPPLEMENTARY INFORMATION**

## DELAWARE TRANSIT CORPORATION

Required Supplementary Information (Unaudited)

June 30, 2012 and 2011

### Required Supplementary Information – Pensions

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

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

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

### Required Supplementary Information – OPEB Trust

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

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	07/1/2009	\$ —	82,631,000	(82,631,000)	—%	\$ 31,420,280	(262.99)%
	07/1/2010	1,500,000	111,122,000	(109,622,000)	1.35	31,293,725	(350.30)
	07/1/2011	1,605,000	125,866,000	(124,261,000)	1.28	31,883,191	(389.74)

## **ADDITIONAL INFORMATION**

**DELAWARE TRANSIT CORPORATION**

Schedule of Revenues and Expenses Compared to Budget

Year ended June 30, 2012

	<b>Budget (unaudited)</b>	<b>Actual</b>	<b>Favorable (unfavorable)</b>
Operating revenues:			
Passenger fares	\$ 13,798,600	14,573,514	774,914
Advertising	450,000	489,258	39,258
Miscellaneous	370,000	930,117	560,117
Auxiliary transportation	810,200	829,591	19,391
Total operating revenues	15,428,800	16,822,480	1,393,680
Operating expenses	96,122,923	114,389,047	(18,266,124)
Operating expenses in excess of operating revenues	(80,694,123)	(97,566,567)	(16,872,444)
Nonoperating revenues (expenses):			
Federal operating assistance	3,054,023	3,371,795	317,772
Pass-through grant revenue	251,127	1,555,100	1,303,973
Pass-through grant expense	(326,727)	(3,831,938)	(3,505,211)
Investment income	200,000	62,028	(137,972)
Excess of nonoperating revenues over expenses	3,178,423	1,156,985	(2,021,438)
Transfers from DelDOT for operating purposes:			
State operating assistance	77,515,700	77,521,008	5,308
State pass-through grant revenue	—	2,198,901	2,198,901
Total transfers for operating purposes	77,515,700	79,719,909	2,204,209
Income before contributions and depreciation, net of gains on retirements on property and equipment	\$ —	(16,689,673)	(16,689,673)

See accompanying independent auditors' report.

## **SCHEDULES OF EXPENSES BY MODE**

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – All Modes

Year ended June 30, 2012

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ 21,496,703	—	—	—	21,496,703
Other salaries	3,297,465	4,707,379	429,683	5,965,741	14,400,268
	<u>24,794,168</u>	<u>4,707,379</u>	<u>429,683</u>	<u>5,965,741</u>	<u>35,896,971</u>
Fringe benefits	26,049,641	4,697,301	513,376	7,358,173	38,618,491
Services:					
Professional and technical	3,109	—	25,071	2,280,595	2,308,775
Contract and maintenance	—	1,431,218	1,448,930	—	2,880,148
Security	—	—	17,407	460,039	477,446
Other	—	5,985	73,701	243,553	323,239
	<u>3,109</u>	<u>1,437,203</u>	<u>1,565,109</u>	<u>2,984,187</u>	<u>5,989,608</u>
Materials and supplies:					
Fuel and lubes	9,890,381	114,156	—	—	10,004,537
Tires and tubes	452,172	5,840	—	—	458,012
Other materials	107,479	3,096,982	111,314	257,901	3,573,676
	<u>10,450,032</u>	<u>3,216,978</u>	<u>111,314</u>	<u>257,901</u>	<u>14,036,225</u>
Utilities	—	—	—	972,257	972,257
Insurance	—	—	—	5,792,141	5,792,141
Purchased transportation	11,693,407	—	—	—	11,693,407
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	74,715	74,715
Travel and meetings	—	17	—	899,439	899,456
Advertising	—	—	—	233,434	233,434
Facilities	—	—	60,204	—	60,204
Other	—	—	—	122,138	122,138
	<u>—</u>	<u>17</u>	<u>60,204</u>	<u>1,329,726</u>	<u>1,389,947</u>
Total expenses	\$ <u>72,990,357</u>	<u>14,058,878</u>	<u>2,679,686</u>	<u>24,660,126</u>	<u>114,389,047</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Fixed Route Directly Operated

Year ended June 30, 2012

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ 10,887,358	—	—	—	10,887,358
Other salaries	1,661,510	3,483,343	160,315	2,201,085	7,506,253
	<u>12,548,868</u>	<u>3,483,343</u>	<u>160,315</u>	<u>2,201,085</u>	<u>18,393,611</u>
Fringe benefits	10,711,484	3,010,007	139,618	2,002,324	15,863,433
Services:					
Professional and technical	—	—	9,540	853,103	862,643
Contract and maintenance	—	856,045	540,596	—	1,396,641
Security	—	—	6,623	175,045	181,668
Other	—	5,111	28,043	100,232	133,386
	<u>—</u>	<u>861,156</u>	<u>584,802</u>	<u>1,128,380</u>	<u>2,574,338</u>
Materials and supplies:					
Fuel and lubes	5,627,502	43,533	—	—	5,671,035
Tires and tubes	295,420	2,190	—	—	297,610
Other materials	47,172	2,432,594	42,355	104,184	2,626,305
	<u>5,970,094</u>	<u>2,478,317</u>	<u>42,355</u>	<u>104,184</u>	<u>8,594,950</u>
Utilities	—	—	—	369,944	369,944
Insurance	—	—	—	2,161,048	2,161,048
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	28,429	28,429
Travel and meetings	—	7	—	342,236	342,243
Advertising	—	—	—	209,064	209,064
Facilities	—	—	22,908	—	22,908
Other	—	—	—	46,474	46,474
	<u>—</u>	<u>7</u>	<u>22,908</u>	<u>626,203</u>	<u>649,118</u>
Total expenses	\$ <u>29,230,446</u>	\$ <u>9,832,830</u>	\$ <u>949,998</u>	\$ <u>8,593,168</u>	\$ <u>48,606,442</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Paratransit Directly Operated

Year ended June 30, 2012

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ 10,609,345	—	—	—	10,609,345
Other salaries	1,455,163	1,148,288	240,365	3,289,191	6,133,007
	<u>12,064,508</u>	<u>1,148,288</u>	<u>240,365</u>	<u>3,289,191</u>	<u>16,742,352</u>
Fringe benefits	14,921,697	1,506,535	305,464	4,307,626	21,041,322
Services:					
Professional and technical	—	—	14,255	1,274,834	1,289,089
Contract and maintenance	—	355,243	810,531	—	1,165,774
Security	—	—	9,898	261,578	271,476
Other	—	874	41,906	130,368	173,148
	<u>—</u>	<u>356,117</u>	<u>876,590</u>	<u>1,666,780</u>	<u>2,899,487</u>
Materials and supplies:					
Fuel and lubes	4,250,602	65,270	—	—	4,315,872
Tires and tubes	134,419	3,283	—	—	137,702
Other materials	55,036	540,293	63,294	140,144	798,767
	<u>4,440,057</u>	<u>608,846</u>	<u>63,294</u>	<u>140,144</u>	<u>5,252,341</u>
Utilities	—	—	—	552,825	552,825
Insurance	—	—	—	3,240,124	3,240,124
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	42,483	42,483
Travel and meetings	—	10	—	511,421	511,431
Advertising	—	—	—	3,634	3,634
Facilities	—	—	34,232	—	34,232
Other	—	—	—	69,448	69,448
	<u>—</u>	<u>10</u>	<u>34,232</u>	<u>626,986</u>	<u>661,228</u>
Total expenses	\$ <u>31,426,262</u>	<u>3,619,796</u>	<u>1,519,945</u>	<u>13,823,676</u>	<u>50,389,679</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Fixed Route Purchased Transportation

Year ended June 30, 2012

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ —	—	—	—	—
Other salaries	164,748	59,012	22,687	313,683	560,130
	<u>164,748</u>	<u>59,012</u>	<u>22,687</u>	<u>313,683</u>	<u>560,130</u>
Fringe benefits	370,042	132,563	50,297	710,684	1,263,586
Services:					
Professional and technical	3,109	—	943	104,309	108,361
Contract and maintenance	—	214,346	76,504	—	290,850
Security	—	—	654	17,297	17,951
Other	—	—	2,771	9,904	12,675
	<u>3,109</u>	<u>214,346</u>	<u>80,872</u>	<u>131,510</u>	<u>429,837</u>
Materials and supplies:					
Fuel and lubes	10,068	4,187	—	—	14,255
Tires and tubes	18,630	287	—	—	18,917
Other materials	3,882	112,031	4,185	10,295	130,393
	<u>32,580</u>	<u>116,505</u>	<u>4,185</u>	<u>10,295</u>	<u>163,565</u>
Utilities	—	—	—	36,557	36,557
Insurance	—	—	—	305,825	305,825
Purchased transportation	1,893,899	—	—	—	1,893,899
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	2,809	2,809
Travel and meetings	—	—	—	33,819	33,819
Advertising	—	—	—	20,651	20,651
Facilities	—	—	2,264	—	2,264
Other	—	—	—	4,592	4,592
	<u>—</u>	<u>—</u>	<u>2,264</u>	<u>61,871</u>	<u>64,135</u>
Total expenses	\$ <u>2,464,378</u>	<u>522,426</u>	<u>160,305</u>	<u>1,570,425</u>	<u>4,717,534</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Paratransit Purchased Transportation

Year ended June 30, 2012

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ —	—	—	—	—
Other salaries	16,044	16,736	6,316	110,878	149,974
	<u>16,044</u>	<u>16,736</u>	<u>6,316</u>	<u>110,878</u>	<u>149,974</u>
Fringe benefits	46,418	48,196	17,997	321,317	433,928
Services:					
Professional and technical	—	—	333	36,880	37,213
Contract and maintenance	—	5,584	21,299	—	26,883
Security	—	—	232	6,119	6,351
Other	—	—	981	3,049	4,030
	<u>—</u>	<u>5,584</u>	<u>22,845</u>	<u>46,048</u>	<u>74,477</u>
Materials and supplies:					
Fuel and lubes	2,209	1,166	—	—	3,375
Tires and tubes	3,703	80	—	—	3,783
Other materials	1,389	12,064	1,480	3,278	18,211
	<u>7,301</u>	<u>13,310</u>	<u>1,480</u>	<u>3,278</u>	<u>25,369</u>
Utilities	—	—	—	12,931	12,931
Insurance	—	—	—	85,144	85,144
Purchased transportation	789,979	—	—	—	789,979
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	994	994
Travel and meetings	—	—	—	11,963	11,963
Advertising	—	—	—	85	85
Facilities	—	—	800	—	800
Other	—	—	—	1,624	1,624
	<u>—</u>	<u>—</u>	<u>800</u>	<u>14,666</u>	<u>15,466</u>
Total expenses	\$ <u>859,742</u>	<u>83,826</u>	<u>49,438</u>	<u>594,262</u>	<u>1,587,268</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Rail

Year ended June 30, 2012

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ —	—	—	—	—
Other salaries	—	—	—	50,904	50,904
	<u>—</u>	<u>—</u>	<u>—</u>	<u>50,904</u>	<u>50,904</u>
Fringe benefits	—	—	—	16,222	16,222
Services:					
Professional and technical	—	—	—	11,469	11,469
Contract and maintenance	—	—	—	—	—
Security	—	—	—	—	—
Other	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,469</u>	<u>11,469</u>
Materials and supplies:					
Fuel and lubes	—	—	—	—	—
Tires and tubes	—	—	—	—	—
Other materials	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Utilities	—	—	—	—	—
Insurance	—	—	—	—	—
Purchased transportation	9,009,529	—	—	—	9,009,529
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	—	—
Travel and meetings	—	—	—	—	—
Advertising	—	—	—	—	—
Facilities	—	—	—	—	—
Other	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses	\$ <u>9,009,529</u>	<u>—</u>	<u>—</u>	<u>78,595</u>	<u>9,088,124</u>

See accompanying independent auditors' report.



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

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

The Board of Directors  
Delaware Transportation Authority  
Delaware Transit Corporation  
Dover, Delaware:

We have audited the financial statements of the Delaware Transit Corporation (DTC), which is a subsidiary of the Delaware Transportation Authority, a blended component unit of the State of Delaware, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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



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

We noted certain matters that we reported to management of DTC in a separate letter dated October 26, 2012.

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

KPMG LLP

October 26, 2012