



**DELAWARE TRANSIT CORPORATION**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

# DELAWARE TRANSIT CORPORATION

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KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## **Independent Auditors' Report**

The Board of Directors  
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, a discretely presented component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

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

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

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

#### ***Opinion on the Financial Statements***

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



## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. 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. This 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 Schedule of expenses by mode and the amounts reported as "actual" within the schedule of revenues and expenses compared to budget, 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 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 4, 2013 on our consideration of the Delaware Transit Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Delaware Transit Corporation's internal control over financial reporting and compliance.

**KPMG LLP**

Philadelphia, Pennsylvania  
November 4, 2013

# DELAWARE TRANSIT CORPORATION

## Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 and 2012.

### 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 2013 operating revenues were approximately \$17.0 million and were 1.2% higher than 2012 operating revenues. Passenger revenues contributed to the increase, primarily due to an increase in the volume of passengers using DTC's services.
- Total 2013 operating expenses before depreciation were approximately \$116.7 million and were \$2.3 million higher than 2012 operating expenses. The increase in operating expenses before depreciation is largely due to increased costs for wages, benefits, and consumables.
- A \$17.6 million investment was made in capital assets during the current year (the funding was \$3.6 million in state capital grants and \$14.0 million in federal capital grants). This is primarily attributable to the purchase of revenue vehicles.

### Overview of the Financial Statements

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

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2013 and 2012

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 of DTC

#### *Statements of Net Position*

Total assets increased 1.6% to \$145.6 million. Total liabilities increased 19.6% to \$94.0 million in 2013 and 27.4% to \$78.6 million in 2012 mostly due to increases in other post-employment benefits payable. Total net position at June 30, 2013 was approximately \$51.6 million, a 20.2% decrease from June 30, 2012.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Percentage Change 2013 - 2012</u>	<u>Percentage Change 2012 - 2011</u>
Current assets	\$ 33.3	\$ 31.4	\$ 31.6	6.1%	(0.6)%
Capital assets	109.0	108.9	104.8	0.1%	3.9%
Other noncurrent assets	3.3	3.0	2.6	10.0%	15.4%
Total assets	<u>145.6</u>	<u>143.3</u>	<u>139.0</u>	1.6%	3.1%
Current liabilities	9.2	9.8	11.8	(6.1)%	(16.9)%
Noncurrent liabilities	84.8	68.8	49.9	23.3%	37.9%
Total liabilities	<u>94.0</u>	<u>78.6</u>	<u>61.7</u>	19.6%	27.4%
Net position:					
Restricted	3.3	3.0	2.6	10.0%	15.4%
Investment in capital assets	109.0	108.9	104.8	0.1%	3.9%
Unrestricted	<u>(60.7)</u>	<u>(47.2)</u>	<u>(30.1)</u>	28.6%	56.8%
Total net position	<u>\$ 51.6</u>	<u>\$ 64.7</u>	<u>\$ 77.3</u>	(20.2)%	(16.3)%

The increase in total liabilities was due to an increase in other post-employment benefits payable. The large decrease in unrestricted net position is primarily the result of DTC's recognition of other post-employment expenses of \$15.7 million and \$17.1 million for fiscal years ended June 30, 2013 and 2012, respectively, and not providing advance funding for the annual required contribution.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2013 and 2012

#### *Change in Net Position*

The decrease in net position as of June 30, 2013 was approximately \$13.1 million, which is a decrease in net position of 20.2% over 2012. The increase in DTC's 2013 total operating revenues of \$0.2 million is primarily due to increased passenger revenues. Total operating expenses increased 1.6% to approximately \$133.7 million.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Percentage Change 2013 - 2012</u>	<u>Percentage Change 2012 - 2011</u>
Operating revenues:					
Passenger revenue	\$ 14.6	\$ 14.6	\$ 14.0	—%	4.3%
Other operating revenue	<u>2.4</u>	<u>2.2</u>	<u>2.2</u>	9.1	—
Total operating revenues	17.0	16.8	16.2	1.2	3.7
Operating expenses:					
Total operating expenses before depreciation, net of gains on retirements of property and equipment	116.7	114.4	110.4	2.0	3.6
Depreciation, net of gains on retirements of property and equipment	<u>17.0</u>	<u>17.2</u>	<u>16.6</u>	(1.2)	3.6
Total operating expenses	<u>133.7</u>	<u>131.6</u>	<u>127.0</u>	1.6	3.6
Operating loss	(116.7)	(114.8)	(110.8)	1.7	3.6
Nonoperating revenues, net	1.0	1.2	2.1	(16.7)	(42.9)
Capital contributions	14.0	16.6	14.1	(15.7)	17.7
Transfers from DelDOT	<u>88.6</u>	<u>84.4</u>	<u>76.2</u>	5.0	10.8
Change in net position	(13.1)	(12.6)	(18.4)	4.0	(31.5)
Total net position – beginning of year	<u>64.7</u>	<u>77.3</u>	<u>95.7</u>	(16.3)	(19.2)
Total net position – end of year	<u>\$ 51.6</u>	<u>\$ 64.7</u>	<u>\$ 77.3</u>	(20.2)%	(16.3)%

The increases in operating expenses over 2013 and 2012 are due to the increased costs relating to salaries and fringe benefits, as well as other post-employment benefits.

Capital contributions were up from \$14.1 million in 2011 to \$16.6 million in 2012 and were down from \$16.6 million in 2012 to \$14.0 million in 2013 due to DTC's timing related to vehicle replacement and expansion schedule.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2013 and 2012

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

As of June 30, 2013 and 2012, DTC had approximately \$218.8 million and \$209.9 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, 2013 and 2012 totaled approximately \$109.0 million and \$108.9 million, respectively.

Net capital assets increased \$0.1 million and \$4.1 million during the years ended June 30, 2013 and 2012, respectively. The increase in capital assets for the year ended June 30, 2013 is primarily attributed to the purchase of four expansion revenue rail cars and 55 replacement revenue vehicles amounting to \$18.0 million, offset by depreciation expense of \$17.4 million. The increase in capital assets for the year ended June 30, 2012 is 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.

Assets disposed of during 2013 and 2012 totaled \$9.0 million and \$4.1 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 2014 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 2014 total operating budget is \$107.1 million, which is 4.2% higher than fiscal year's 2013 operating budget. The capital budget is \$79.3 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 \$1.2 million and \$1.1 million for the years ended June 30, 2013 and 2012, respectively. The impact on the financial statements based upon this standard was the recognition of \$15.7 million and \$17.1 million in benefit expenses for the years ended June 30, 2013 and 2012, respectively. DTC expects a similar impact in the 2014 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**

Statements of Net Position

June 30, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets		
Cash and cash equivalents	\$ 26,246,530	\$ 24,153,920
Receivables		
Trade	1,262,030	1,963,104
State	125,494	80,541
Federal	437,295	156,124
Other agencies	1,437	—
Inventories of supplies and fuel	4,068,114	3,930,822
Escrow insurance deposits	181,562	316,960
Prepaid expenses	960,012	786,166
Total current assets	<u>33,282,474</u>	<u>31,387,637</u>
Noncurrent assets		
Capital assets	218,848,553	209,891,905
Less: accumulated depreciation	<u>109,811,134</u>	<u>100,987,963</u>
	109,037,419	108,903,942
Prepaid pension - restricted	<u>3,312,091</u>	<u>3,019,873</u>
Total noncurrent assets	<u>112,349,510</u>	<u>111,923,815</u>
Total assets	<u>\$ 145,631,984</u>	<u>\$ 143,311,452</u>

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Net Position

June 30, 2013 and 2012

<b>Liabilities and Net Position</b>	<b>2013</b>	<b>2012</b>
Current liabilities		
Accounts payable	\$ 3,910,580	\$ 3,667,089
Accrued payroll and related expenses	1,653,905	1,995,032
Compensated absences	1,055,130	1,079,746
Other accrued expenses	126,748	116,500
Insurance loss reserve	2,454,975	2,922,308
Total current liabilities	9,201,338	9,780,675
Noncurrent liabilities		
Compensated absences – net of current portion	1,899,249	1,696,848
Insurance loss reserve – net of current portion	7,392,025	6,086,692
Postemployment benefits payable	75,498,140	61,020,848
Total noncurrent liabilities	84,789,414	68,804,388
Total liabilities	93,990,752	78,585,063
Net position		
Restricted – pension obligations	3,312,091	3,019,873
Investment in capital assets	109,037,419	108,903,942
Unrestricted	(60,708,278)	(47,197,426)
Total net position	51,641,232	64,726,389
Total liabilities and net position	\$ 145,631,984	\$ 143,311,452

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Operating revenues		
Passenger fares	\$ 14,589,391	\$ 14,573,514
Advertising	591,458	489,258
Miscellaneous	1,224,811	930,117
Auxiliary transportation	619,051	829,591
Total operating revenues	17,024,711	16,822,480
Operating expenses		
Vehicle operations	75,507,472	72,990,357
Maintenance		
Vehicle	14,135,713	14,058,878
Nonvehicle	3,105,236	2,679,686
General administration	23,898,047	24,660,126
Total operating expenses before depreciation	116,646,468	114,389,047
Depreciation, net of gain on retirements of property and equipment	17,017,190	17,186,796
Total operating expenses	133,663,658	131,575,843
Operating loss	(116,638,947)	(114,753,363)
Nonoperating revenues (expenses)		
Federal operating assistance	2,953,908	3,371,795
Pass-through grant revenue	12,367,381	1,555,100
Pass-through grant expense	(14,362,027)	(3,831,938)
Investment income	64,592	62,028
Excess of nonoperating revenues over nonoperating expenses	1,023,854	1,156,985
Loss before contributions and transfers	(115,615,093)	(113,596,378)
Capital contributions	13,979,704	16,672,423
Transfers from DelDOT	88,550,232	84,385,221
Change in net position	(13,085,157)	(12,538,734)
Total net position – beginning of year	64,726,389	77,265,123
Total net position – end of year	\$ 51,641,232	\$ 64,726,389

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities		
Receipts from passengers	\$ 15,290,464	\$ 13,386,836
Payments to suppliers	(42,420,099)	(40,698,824)
Payments to employees	(55,576,023)	(54,740,381)
Insurance claims paid	(3,848,013)	(2,906,689)
Other receipts	2,435,320	2,248,966
Net cash used in operating activities	(84,118,351)	(82,710,092)
Cash flows from noncapital financing activities		
Federal operating subsidies	2,953,908	3,371,795
Pass-through grant revenue receipts	12,367,381	1,555,100
Pass-through grant revenue payments	(14,362,027)	(3,831,938)
Transfers from DelDOT	84,922,467	79,719,909
Net cash provided by noncapital financing activities	85,881,729	80,814,866
Cash flows from capital and related financing activities		
Proceeds from capital contributions	13,697,096	16,752,413
Transfers from DelDOT – capital	3,582,813	4,795,061
Acquisition of capital assets	(17,610,867)	(21,418,213)
Proceeds from sale of equipment	460,200	117,094
Net cash provided by capital and related financing activities	129,242	246,355
Cash flows from investing activities		
Payments (to) from insurance escrow account	135,398	(40,993)
Investment income received	64,592	62,028
Net cash provided by investing activities	199,990	21,035
Net increase (decrease) in cash and cash equivalents	2,092,610	(1,627,836)
Cash and cash equivalents – beginning	24,153,920	25,781,756
Cash and cash equivalents – ending	\$ 26,246,530	\$ 24,153,920
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (116,638,947)	\$ (114,753,363)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation, net of gains on retirements of property and equipment	17,017,190	17,186,796
Changes in assets and liabilities		
(Increase) decrease in trade accounts receivable	701,074	(1,186,678)
Increase in inventories	(137,292)	(315,830)
Increase in prepaid expenses	(173,846)	(101,949)
Increase in prepaid pension	(292,218)	(415,455)
Increase in accounts payable	243,490	507,757
Increase in insurance loss reserve	838,000	1,934,000
Increase (decrease) in compensated absences	177,785	(230,463)
Increase in other accrued expenses	10,248	—
Decrease in accrued payroll and related expenses	(341,127)	(1,240,755)
Increase in post-employment benefits	14,477,292	15,905,848
Net cash used in operating activities	\$ (84,118,351)	\$ (82,710,092)

See accompanying notes to financial statements.

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2013 and 2012

### (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, 2013 and 2012 was \$9,665,438 and \$8,692,040, 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.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(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.

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, 2013 and 2012, 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.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

**(j) Revenues and Expenses**

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.

**(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) New Accounting Standards Adopted**

In fiscal year 2013, DTC adopted the following standards:

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

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

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

#### (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, 2013 and 2012 were \$26,246,530 and \$24,153,920, respectively, and the bank balances were \$26,613,759 and \$25,749,451, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The entire bank balances at June 30, 2013 and 2012 of \$26,613,759 and \$25,749,451 were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by DTC's Trustee, in DTC's name, for the remainder. Effective January 1, 2013, accounts were covered by the FDIC up to \$250,000, in total, per financial institution.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(4) Capital Assets**

Capital asset activity for the year ended June 30, 2013 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	1,872,536	—	—	1,872,536
Capital assets being depreciated:				
Buildings	51,959,711	1,894,985	—	53,854,696
Revenue vehicles	124,774,737	11,936,227	(8,842,727)	127,868,237
Service vehicles and equipment	7,916,703	298,700	(170,094)	8,045,309
Communication equipment	18,711,043	3,622,226	—	22,333,269
Furniture and fixtures	711,554	32,040	(5,595)	737,999
Bus signs and shelters	3,945,621	202,690	(11,804)	4,136,507
	<u>208,019,369</u>	<u>17,986,868</u>	<u>(9,030,220)</u>	<u>216,976,017</u>
Less accumulated depreciation:				
Buildings	16,643,316	1,892,697	—	18,536,013
Revenue vehicles	60,782,573	13,715,748	(8,453,835)	66,044,486
Service vehicles and equipment	4,854,675	843,832	(168,741)	5,529,766
Communication equipment	15,859,368	682,855	—	16,542,223
Furniture and fixtures	421,955	73,167	(4,735)	490,387
Bus signs and shelters	2,426,076	250,104	(7,921)	2,668,259
	<u>100,987,963</u>	<u>17,458,403</u>	<u>(8,635,232)</u>	<u>109,811,134</u>
Total capital assets being depreciated, net	<u>107,031,406</u>	<u>528,465</u>	<u>(394,988)</u>	<u>107,164,883</u>
Total capital assets, net	<u>\$ 108,903,942</u>	<u>\$ 528,465</u>	<u>\$ (394,988)</u>	<u>\$ 109,037,419</u>

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 1,872,536	\$ —	\$ —	\$ 1,872,536
Total capital assets not being depreciated	1,872,536	—	—	1,872,536
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
	190,692,300	21,418,213	(4,091,144)	208,019,369
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
	87,775,217	17,243,012	(4,030,266)	100,987,963
Total capital assets being depreciated, net	102,917,083	4,175,201	(60,878)	107,031,406
Total capital assets, net	\$ 104,789,619	\$ 4,175,201	\$ (60,878)	\$ 108,903,942

Depreciation expense for the years ended June 30, 2013 and 2012 was \$17,458,403 and \$17,243,012, respectively.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

#### (5) Long-Term Liabilities

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

	<u>Beginning Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending Balance</u>		<u>Due Within One Year</u>
Compensated absences	\$ 2,776,594	\$	177,785	\$	—	\$	2,954,379	\$	1,055,130
Loss reserve – insurance	9,009,000		4,686,013		(3,848,013)		9,847,000		2,454,975
Post-employment benefit liability	61,020,848		15,671,000		(1,193,708)		75,498,140		—
Long-term liabilities	<u>\$ 72,806,442</u>	\$	<u>20,534,798</u>	\$	<u>(5,041,721)</u>	\$	<u>88,299,519</u>	\$	<u>3,510,105</u>

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

	<u>Beginning Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending Balance</u>		<u>Due Within One Year</u>
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		17,074,000		(1,168,152)		61,020,848		—
Long-term liabilities	<u>\$ 55,197,057</u>	\$	<u>21,914,689</u>	\$	<u>(4,305,304)</u>	\$	<u>72,806,442</u>	\$	<u>4,002,054</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.

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.

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.

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

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

#### (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 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:

	<b>DTC Pension Plan</b>	<b>Contributory Pension Plan</b>
Contribution rates:		
Employer	8.7%*	5.00%
Participants	3.00%	5.00%
Annual pension cost	\$962,682	\$714,524
Contributions made	\$963,253	\$1,080,068
Actuarial valuation date	07/01/12	01/01/13
Actuarial cost method	Frozen initial liability	Entry age normal
Amortization method	Open level dollar	Open level percent
Remaining amortization period	30	15
Asset valuation method	Market	Five-year smoothed
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	2.50%	4.00%

Note: \* = Actuarially Determined

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

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

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

	<b>DTC Pension Plan 06/30/13</b>	<b>Contributory Pension Plan 12/31/12</b>
For the year ended:		
Annual Required Contribution (ARC)	\$ 962,682	\$ 714,521
Interest on Net Pension Obligation (NPO)	8,163	292,950
Actuarial adjustment	(8,163)	(219,050)
Annual Pension Cost (APC)	962,682	788,421
Less: actual contributions	(963,253)	(1,080,068)
Decrease in NPO	(571)	(291,647)
Net pension obligation (asset), beginning of the year	109,418	(3,129,291)
Net pension obligation (asset), end of the year	\$ 108,847	\$ (3,420,938)
For the year ended:	<b>06/30/12</b>	<b>12/31/11</b>
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)

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

#### Three-Year Trend Information

	<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	06/30/2011	\$ 1,111,468	\$ 1,111,548	99.99%	\$ (109,368)
	06/30/2012	996,777	996,827	99.99%	(109,418)
	06/30/2013	963,253	962,682	100.06%	(108,847)
Contributory pension plan	12/31/2010	\$ 1,081,793	\$ 535,681	201.95%	\$ 2,713,706
	12/31/2011	1,073,948	658,363	163.12%	3,129,291
	12/31/2012	1,080,068	788,421	136.99%	3,420,938

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

#### (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 \$28,284 and \$27,643 for the years ended June 30, 2013 and 2012, respectively.

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

2014	\$	1,800
2015		1,800
2016		1,800
2017		1,800
2018		1,800
2019 – 2020		3,600
	\$	12,600

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, 2013 and 2012, DTC incurred expenses related to this lease of \$344,942 and \$265,853, respectively.

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2013 and 2012

### (9) Economic Dependency

DTC's revenue from operating subsidies from State entities was approximately 71% and 76% of total revenue for the years ended June 30, 2013 and 2012, 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 the State. Under the State program, DTC paid a premium calculated as \$8.14 and \$7.36 per \$100 of payroll for the years ended June 30, 2013 and 2012, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

#### (b) *Auto Insurance*

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

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

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

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

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	***
2013	4,304,004	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.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

<b>Fiscal Year</b>	<b>Beginning Balance July 1</b>	<b>Current Year Estimated Claims and Changes in Estimates</b>	<b>Actual Claim Payments</b>	<b>Ending Balance June 30</b>
2012	\$ 7,075,000	\$ 4,840,689	\$ (2,906,689)	\$ 9,009,000
2013	9,009,000	4,686,013	(3,848,013)	9,847,000

**(12) Transfers**

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

	<b>2013</b>	<b>2012</b>
Amounts transferred as operating assistance	\$ 83,003,807	\$ 77,521,008
Amounts transferred as pass-through grant revenues	1,918,660	2,198,901
Amounts transferred as capital funding for purchase of capital assets	3,627,765	4,665,312
Total transfers from DeIDOT	\$ 88,550,232	\$ 84,385,221

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(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, 2013:

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

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

*Eligibility*

Contract employees:

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

Noncontract employees:

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

*Benefits*

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

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

#### *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 \$1,193,708 and \$1,168,152 for the years ended June 30, 2013 and 2012, 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 2013 and the preceding year, the amount actually contributed to the plan, and DTC's net OPEB obligation:

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

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

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	Cost	Contributed	Obligation
06/30/2013	\$ 15,671,000	7.62%	\$ 75,498,140
06/30/2012	17,074,000	6.84%	61,020,848
06/30/2011	15,772,000	6.61%	45,115,000

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the 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,

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2013 and 2012

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

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

DTC has a deficit on unrestricted net position of \$60,708,278 and \$47,197,426 as of June 30, 2013 and 2012, 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, which does not negate a current cash contribution. See the financial impact in Note 13.

**REQUIRED SUPPLEMENTARY INFORMATION**

**DELAWARE TRANSIT CORPORATION**

Required Supplementary Information

June 30, 2013 and 2012

**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:

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

**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 plan's funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due:

Schedule of Funding Progress

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

## **ADDITIONAL INFORMATION**

**DELAWARE TRANSIT CORPORATION**

Schedule of Revenues and Expenses Compared to Budget

Year Ended June 30, 2013

	<b>Budget (Unaudited)</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
Operating revenues			
Passenger fares	\$ 14,623,717	\$ 14,589,391	\$ (34,326)
Advertising	450,000	591,458	141,458
Miscellaneous	370,000	1,224,811	854,811
Auxiliary transportation	806,000	619,051	(186,949)
Total operating revenues	16,249,717	17,024,711	774,994
Operating expenses	102,456,424	116,646,468	(14,190,044)
Operating expenses in excess of operating revenues	(86,206,707)	(99,621,757)	(13,415,050)
Nonoperating revenues (expenses)			
Federal operating assistance	3,082,447	2,953,908	(128,539)
Pass-through grant revenue	302,700	12,367,381	12,064,681
Pass-through grant expense	(382,700)	(14,362,027)	(13,979,327)
Investment income	200,000	64,592	(135,408)
Excess of nonoperating revenues over expenses	3,202,447	1,023,854	(2,178,593)
Transfers from DelDOT for operating purposes			
State operating assistance	83,004,260	83,003,807	(453)
State pass-through grant revenue	—	1,918,660	1,918,660
Total transfers for operating purposes	83,004,260	84,922,467	1,918,207
Income before contributions and depreciation, net of gains on retirements on property and equipment	\$ —	\$ (13,675,436)	\$ (13,675,436)

See accompanying independent auditors' report.

## **SCHEDULES OF EXPENSES BY MODE**

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – All Modes

Year Ended June 30, 2013

	<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	\$ 23,248,416	\$ —	\$ —	\$ —	\$ 23,248,416
Other salaries	<u>3,345,450</u>	<u>4,791,376</u>	<u>425,029</u>	<u>5,812,184</u>	<u>14,374,039</u>
	26,593,866	4,791,376	425,029	5,812,184	37,622,455
Fringe benefits	26,415,368	4,746,858	492,173	6,785,667	38,440,066
Services:					
Professional and technical	6,266	—	6,500	2,439,287	2,452,053
Contract and maintenance	—	1,212,052	1,891,141	—	3,103,193
Security	—	—	21,868	459,793	481,661
Other	<u>—</u>	<u>14,784</u>	<u>74,424</u>	<u>294,863</u>	<u>384,071</u>
	6,266	1,226,836	1,993,933	3,193,943	6,420,978
Materials and supplies:					
Fuel and lubes	9,996,558	165,998	—	—	10,162,556
Tires and tubes	498,593	5,143	—	—	503,736
Other materials	<u>104,462</u>	<u>3,199,377</u>	<u>130,414</u>	<u>218,657</u>	<u>3,652,910</u>
	10,599,613	3,370,518	130,414	218,657	14,319,202
Utilities	—	—	—	1,078,854	1,078,854
Insurance	—	—	—	5,284,029	5,284,029
Purchased transportation	11,891,590	—	—	—	11,891,590
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	67,676	67,676
Travel and meetings	769	125	—	1,027,389	1,028,283
Advertising	—	—	—	303,363	303,363
Facilities	—	—	63,687	—	63,687
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>126,285</u>	<u>126,285</u>
	769	125	63,687	1,524,713	1,589,294
Total expenses	\$ <u>75,507,472</u>	\$ <u>14,135,713</u>	\$ <u>3,105,236</u>	\$ <u>23,898,047</u>	\$ <u>116,646,468</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Fixed Route Directly Operated

Year Ended June 30, 2013

	<b>Vehicle Operations (10)</b>	<b>Vehicle Maintenance (41)</b>	<b>Nonvehicle Maintenance (42)</b>	<b>General Administration (160)</b>	<b>Totals</b>
<b>Labor:</b>					
Operator salaries	\$ 11,537,787	\$ —	\$ —	\$ —	\$ 11,537,787
Other salaries	<u>1,220,477</u>	<u>3,532,345</u>	<u>157,047</u>	<u>2,090,488</u>	<u>7,000,357</u>
	12,758,264	3,532,345	157,047	2,090,488	18,538,144
Fringe benefits	10,363,372	3,091,046	135,231	1,805,060	15,394,709
<b>Services:</b>					
Professional and technical	688	—	2,413	893,533	896,634
Contract and maintenance	—	581,194	697,774	—	1,278,968
Security	—	—	8,118	170,676	178,794
Other	<u>—</u>	<u>12,847</u>	<u>27,626</u>	<u>113,802</u>	<u>154,275</u>
	688	594,041	735,931	1,178,011	2,508,671
<b>Materials and supplies:</b>					
Fuel and lubes	5,583,639	62,238	—	—	5,645,877
Tires and tubes	331,356	1,915	—	—	333,271
Other materials	<u>43,675</u>	<u>2,517,706</u>	<u>48,410</u>	<u>84,719</u>	<u>2,694,510</u>
	5,958,670	2,581,859	48,410	84,719	8,673,658
Utilities	—	—	—	400,471	400,471
Insurance	—	—	—	1,952,449	1,952,449
Purchased transportation	—	—	—	—	—
<b>Miscellaneous expenses:</b>					
Dues and subscriptions	—	—	—	25,121	25,121
Travel and meetings	285	46	—	381,367	381,698
Advertising	—	—	—	265,975	265,975
Facilities	—	—	23,641	—	23,641
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>46,877</u>	<u>46,877</u>
	285	46	23,641	719,340	743,312
<b>Total expenses</b>	<b>\$ <u>29,081,279</u></b>	<b>\$ <u>9,799,337</u></b>	<b>\$ <u>1,100,260</u></b>	<b>\$ <u>8,230,538</u></b>	<b>\$ <u>48,211,414</u></b>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Paratransit Directly Operated

Year Ended June 30, 2013

	<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	\$ 11,710,629	\$ —	\$ —	\$ —	\$ 11,710,629
Other salaries	2,002,984	1,184,920	240,822	3,258,503	6,687,229
	<u>13,713,613</u>	<u>1,184,920</u>	<u>240,822</u>	<u>3,258,503</u>	<u>18,397,858</u>
Fringe benefits	15,742,774	1,466,958	288,485	3,911,158	21,409,375
Services:					
Professional and technical	1,073	—	3,761	1,392,773	1,397,607
Contract and maintenance	—	415,539	1,069,983	—	1,485,522
Security	—	—	12,653	266,036	278,689
Other	—	1,937	43,062	165,930	210,929
	<u>1,073</u>	<u>417,476</u>	<u>1,129,459</u>	<u>1,824,739</u>	<u>3,372,747</u>
Materials and supplies:					
Fuel and lubes	4,399,929	95,449	—	—	4,495,378
Tires and tubes	142,362	2,936	—	—	145,298
Other materials	55,673	576,170	75,458	122,692	829,993
	<u>4,597,964</u>	<u>674,555</u>	<u>75,458</u>	<u>122,692</u>	<u>5,470,669</u>
Utilities	—	—	—	624,225	624,225
Insurance	—	—	—	2,993,931	2,993,931
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	39,157	39,157
Travel and meetings	445	72	—	594,447	594,964
Advertising	—	—	—	10,555	10,555
Facilities	—	—	36,849	—	36,849
Other	—	—	—	73,069	73,069
	<u>445</u>	<u>72</u>	<u>36,849</u>	<u>717,228</u>	<u>754,594</u>
Total expenses	\$ <u>34,055,869</u>	\$ <u>3,743,981</u>	\$ <u>1,771,073</u>	\$ <u>13,452,476</u>	\$ <u>53,023,399</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Fixed Route Purchased Transportation

Year Ended June 30, 2013

	<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	89,076	59,034	21,762	304,826	474,698
	<u>89,076</u>	<u>59,034</u>	<u>21,762</u>	<u>304,826</u>	<u>474,698</u>
Fringe benefits	223,862	149,308	54,455	770,234	1,197,859
Services:					
Professional and technical	4,505	—	241	106,191	110,937
Contract and maintenance	—	211,293	96,688	—	307,981
Security	—	—	811	17,058	17,869
Other	—	—	2,761	11,374	14,135
	<u>4,505</u>	<u>211,293</u>	<u>100,501</u>	<u>134,623</u>	<u>450,922</u>
Materials and supplies:					
Fuel and lubes	11,253	6,659	—	—	17,912
Tires and tubes	21,132	234	—	—	21,366
Other materials	3,701	94,948	4,838	8,468	111,955
	<u>36,086</u>	<u>101,841</u>	<u>4,838</u>	<u>8,468</u>	<u>151,233</u>
Utilities	—	—	—	40,025	40,025
Insurance	—	—	—	270,542	270,542
Purchased transportation	1,857,955	—	—	—	1,857,955
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	2,511	2,511
Travel and meetings	29	5	—	38,116	38,150
Advertising	—	—	—	26,594	26,594
Facilities	—	—	2,363	—	2,363
Other	—	—	—	4,685	4,685
	<u>29</u>	<u>5</u>	<u>2,363</u>	<u>71,906</u>	<u>74,303</u>
Total expenses	\$ <u>2,211,513</u>	\$ <u>521,481</u>	\$ <u>183,919</u>	\$ <u>1,600,624</u>	\$ <u>4,517,537</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Paratransit Purchased Transportation

Year Ended June 30, 2013

	<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	32,913	15,077	5,398	107,616	161,004
	<u>32,913</u>	<u>15,077</u>	<u>5,398</u>	<u>107,616</u>	<u>161,004</u>
Fringe benefits	85,360	39,546	14,002	281,785	420,693
Services:					
Professional and technical	—	—	85	37,493	37,578
Contract and maintenance	—	4,026	23,983	—	28,009
Security	—	—	286	6,023	6,309
Other	—	—	975	3,757	4,732
	<u>—</u>	<u>4,026</u>	<u>25,329</u>	<u>47,273</u>	<u>76,628</u>
Materials and supplies:					
Fuel and lubes	1,737	1,652	—	—	3,389
Tires and tubes	3,743	58	—	—	3,801
Other materials	1,413	10,553	1,708	2,778	16,452
	<u>6,893</u>	<u>12,263</u>	<u>1,708</u>	<u>2,778</u>	<u>23,642</u>
Utilities	—	—	—	14,133	14,133
Insurance	—	—	—	67,107	67,107
Purchased transportation	816,338	—	—	—	816,338
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	887	887
Travel and meetings	10	2	—	13,459	13,471
Advertising	—	—	—	239	239
Facilities	—	—	834	—	834
Other	—	—	—	1,654	1,654
	<u>10</u>	<u>2</u>	<u>834</u>	<u>16,239</u>	<u>17,085</u>
Total expenses	\$ <u>941,514</u>	\$ <u>70,914</u>	\$ <u>47,271</u>	\$ <u>536,931</u>	\$ <u>1,596,630</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Rail

Year Ended June 30, 2013

	<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	—	—	—	50,751	50,751
	—	—	—	50,751	50,751
Fringe benefits	—	—	—	17,430	17,430
Services:					
Professional and technical	—	—	—	9,297	9,297
Contract and maintenance	—	—	2,713	—	2,713
Security	—	—	—	—	—
Other	—	—	—	—	—
	—	—	2,713	9,297	12,010
Materials and supplies:					
Fuel and lubes	—	—	—	—	—
Tires and tubes	—	—	—	—	—
Other materials	—	—	—	—	—
	—	—	—	—	—
Utilities	—	—	—	—	—
Insurance	—	—	—	—	—
Purchased transportation	9,217,297	—	—	—	9,217,297
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	—	—
Travel and meetings	—	—	—	—	—
Advertising	—	—	—	—	—
Facilities	—	—	—	—	—
Other	—	—	—	—	—
	—	—	—	—	—
<b>Total expenses</b>	<b>\$ 9,217,297</b>	<b>\$ —</b>	<b>\$ 2,713</b>	<b>\$ 77,478</b>	<b>\$ 9,297,488</b>

See accompanying independent auditors' report.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Transit Corporation (DTC), a discretely presented component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, as of and for the year ended June 30, 2013, and have issued our report thereon dated November 4, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit, 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DTC's internal control. Accordingly, we do not express an opinion on the effectiveness of the DTC's internal control.

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

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the DTC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*KPMG LLP*

Philadelphia, PA  
November 4, 2013