**STATE OF DELAWARE**
**DEPARTMENT OF TRANSPORTATION**

Financial Statements
June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

Issuance Date: December 15, 2016

**State of Delaware**
**Department of Transportation**

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Santora CPA Group
Right, By Your Side

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# Independent Auditors' Report

State of Delaware Department of Transportation
Dover, Delaware

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the State of Delaware Department of Transportation (the Department), which is an enterprise fund of the State of Delaware (the State) as of and for the Fiscal Years Ended June 30, 2016 and 2015, and the related notes to financial statements, which collectively comprise the Department's financial statements as listed in the table of contents.

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

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Department'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 Department'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.



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

**Opinion**

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

**Emphasis of Matter**

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

As discussed in Note 2(n) to the financial statements, in Fiscal Year 2016, the Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. In Fiscal Year 2015, the Department adopted the provisions of GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

*Financial Statement Presentation*

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2016 and 2015, the changes in its financial position, or where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

State of Delaware Department of Transportation

*Supplementary Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated December 13, 2016, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Santora CPA Group

December 13, 2016
Newark, Delaware

**State of Delaware**
**Department of Transportation**
Management's Discussion and Analysis
June 30, 2016 and 2015

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

## Background

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

## Financial Highlights

- Outstanding revenue bonds payable increased as the Department had two new bond issues during the Fiscal Year Ended June 30, 2016. Revenue bonds payable increased to $986.3 million at June 30, 2016 from $861.4 million at June 30, 2015.

- Operating revenues increased by $61.6 million to $572.5 million during the Fiscal Year Ended June 30, 2016, primarily due to: 1) increased motor vehicle related revenues as a result of new fee increases that became effective in October 2015; 2) increases in toll revenues due to continued low fuel prices; and 3) increased motor fuel taxes as a result of continued lower fuel prices.

- Operating expenses increased by $53.9 million to $654.9 million during the Fiscal Year Ended June 30, 2016, primarily as a result of increases in road maintenance, preservation, and repair expenses due to an increased focus on maintaining the State's transportation infrastructure in a state of good repair.

- Total capital assets (net of depreciation) increased $81.4 million to $4,402.7 million during Fiscal Year 2016, primarily as a result of the following infrastructure and equipment spending: US 301 - $11.4 million; SR-1/Little Heaven Interchange - $11.6 million; SR-1/Thompsonville Interchange - $9.5 million; SR-1/Other - $4.7 million; Wilmington Riverfront/Christina River Bridge - $2.5 million; and truck, tractor, and equipment purchases - $32.0 million.

## Overview of the Financial Statements

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

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

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

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

The Department's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America 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 statement of revenues, expenses, and changes in fund net position. All assets and liabilities associated with the operation of the Department are included in the statements of net position.

## Financial Analysis of the Department

*Net Position*

The Department's total assets were $5,002.1 million at June 30, 2016, compared to $4,719.3 million at June 30, 2015, and $4,675.4 million at June 30, 2014. Total liabilities were $1,477.9 million at June 30, 2016, compared to $1,265.9 million at June 30, 2015, and $1,316.8 million at June 30, 2014. Net position at June 30, 2016 was $3,544.9 million, compared to $3,440.7 million at June 30, 2015, and $3,361.9 million at June 30, 2014.

Condensed Financial Information - Department of Transportation
Net Position as of June 30
*(Dollars expressed in millions)*

| | | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| Current assets | $ 487.7 | $ 322.7 | $ 313.2 | 51.1 % | 3.0 % |
| Capital assets | 4,402.7 | 4,321.3 | 4,272.3 | 1.9 | 1.1 |
| Other noncurrent assets | 111.7 | 75.3 | 89.9 | 48.3 | (16.2) |
| Total assets | 5,002.1 | 4,719.3 | 4,675.4 | 6.0 | 0.9 |
| Deferred outflows of resources | 49.4 | 29.4 | 22.8 | 68.0 | 28.9 |
| Current liabilities | 206.6 | 194.6 | 179.7 | 6.2 | 8.3 |
| Noncurrent liabilities | 1,271.3 | 1,071.3 | 1,137.1 | 18.7 | (5.8) |
| Total liabilities | 1,477.9 | 1,265.9 | 1,316.8 | 16.7 | (3.9) |
| Deferred inflows of resources | 28.7 | 42.1 | 19.6 | (31.8) | 114.8 |
| Net position | | | | | |
| Net investment in capital assets | 3,505.9 | 3,445.9 | 3,267.4 | 1.7 | 5.5 |
| Restricted | 196.6 | 153.1 | 160.5 | 28.4 | (4.6) |
| Unrestricted | (157.6) | (158.3) | (66.0) | (0.4) | 139.8 |
| Total net position | $ 3,544.9 | $ 3,440.7 | $ 3,361.9 | 3.0 | 2.3 |

For Fiscal Year 2016, the increase in capital assets is primarily a result of the following infrastructure and equipment spending: US 301 - $11.4 million; SR-1/Little Heaven Interchange - $11.6 million; SR-1/ Thompsonville Interchange - $9.5 million; SR-1/Other - $4.7 million; Wilmington Riverfront/Christina River Bridge - $2.5 million; and truck, tractor, and equipment purchases - $32.0 million.

For Fiscal Year 2015, the increase in capital assets is primarily a result of the following infrastructure and equipment spending: West Dover Connector - $6.7 million; US 301 - $12.8 million; Wilmington Riverfront/Christina River Bridge - $5.3 million; SR-1/I-95 Interchange - $5.8 million; and truck and tractor purchases - $7.5 million.

For Fiscal Year 2016, the increase in total liabilities is primarily the result of the Department having two new bond issues during the Fiscal Year Ended June 30, 2016.

For Fiscal Year 2015, although there were increases in the net post-employment obligations adding to liabilities, the decrease in total liabilities is primarily the result of not issuing new debt during the year and the payment of existing bonds.

For Fiscal Year 2016, the net position increased due to the decision to issue new debt during the year and increased capital spending.

For Fiscal Year 2015, the unrestricted net position decreased due to the decision to draw down existing cash balances to pay for capital assets instead of issuing new debt during the year, as well as the effect of implementing new accounting standards related to pensions.

*Changes in Net Position*

The Department's net position was $3,544.9 million at June 30, 2016, compared to $3,440.7 million at June 30, 2015, and $3,361.9 million at June 30, 2014. Operating revenues were $572.5 million at June 30, 2016, compared to $510.9 million at June 30, 2015, and $484.3 million at June 30, 2014. Total operating expenses were $654.9 million at June 30, 2016, compared to $601.0 million at June 30, 2015, and $567.7 million at June 30, 2014.

Condensed Financial Information - Department of Transportation
Changes in Net Position for the Years Ended June 30
*(Dollars expressed in millions)*

| | | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| Operating revenues | $ 572.5 | $ 510.9 | $ 484.3 | 12.1 % | 5.5 % |
| Operating expenses | | | | | |
| Operating expenses | 627.3 | 573.8 | 534.5 | 9.3 | 7.4 |
| Depreciation | 27.6 | 27.2 | 33.2 | 1.5 | (18.1) |
| Total operating expenses | 654.9 | 601.0 | 567.7 | 9.0 | 5.9 |
| Operating loss | (82.4) | (90.1) | (83.4) | (8.5) | 8.0 |
| Nonoperating revenues, net | 182.6 | 212.3 | 188.5 | (14.0) | 12.6 |
| Income before transfers | 100.2 | 122.2 | 105.1 | (18.0) | 16.3 |
| Transfers, net | 4.0 | (7.1) | 39.7 | (156.3) | (117.9) |
| Change in net position | 104.2 | 115.1 | 144.8 | (9.5) | (20.5) |
| Total net position - beginning of year, as previously stated | 3,440.7 | 3,361.9 | 3,217.1 | 2.3 | 4.5 |
| Prior period adjustment - Implementation of GASB Nos. 68 and 71 | - | (36.3) | - | (100.0) | N/A |
| Total net position - beginning of year, as restated | 3,440.7 | 3,325.6 | 3,217.1 | 3.5 | 3.4 |
| Total net position - end of year | $ 3,544.9 | $ 3,440.7 | $ 3,361.9 | 3.0 | 2.3 |

The increase in operating revenues from 2015 to 2016 is primarily attributed to increases in motor vehicle revenues, toll revenues, and motor fuel tax revenues.

The increase in operating revenues from 2014 to 2015 is primarily attributed to increased toll revenues and an increase in motor vehicle and related revenues as a result of increased auto sales.

The increase in total operating expenses from 2015 to 2016 is primarily due to increased professional fees for the planning of projects and increases in support systems and paving and rehabilitation programs.

The increase in total operating expenses from 2014 to 2015 is primarily due to increased professional fees for the planning of projects and increases in materials and supplies from a challenging winter season.

The decrease in nonoperating revenues from 2015 to 2016 is a result of decreased federal grant revenues due to less federal spending on federal capital projects.

The increase in nonoperating revenues from 2014 to 2015 is a result of increased federal grant revenues relating to federal capital projects.

## Capital Assets and Debt Administration

*Capital Assets*

As of June 30, 2016, the Department had invested $4,621.9 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2016 totaled $4,402.7 million. This amount represents a net increase (including additions and disposals, and net of depreciation) of $81.4 million over June 30, 2015. The increase is primarily a result of the following infrastructure and equipment spending: US 301 - $11.4 million; SR-1/Little Heaven Interchange - $11.6 million; SR-1/Thompsonville Interchange - $9.5 million; SR-1/Other - $4.7 million; Wilmington Riverfront/Christina River Bridge - $2.5 million; and truck, tractor, and equipment purchases - $32.0 million.

As of June 30, 2015, the Department had invested $4,530.2 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2015 totaled $4,321.3 million. This amount represents a net increase (including additions and disposals, and net of depreciation) of $49.0 million over June 30, 2014. The increase is primarily a result of the following infrastructure and equipment spending: West Dover Connector - $6.7 million; US 301 - $12.8 million; Wilmington Riverfront/Christina River Bridge - $5.3 million; SR-1/I-95 Interchange - $5.8 million; and truck and tractor purchases - $7.5 million.

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

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

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

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

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

Of the Department's 842 bridge structures that were rated in 2016, 71.9% received a good or better BCR rating, 23.2% were rated fair, and 4.9% received a substandard rating. Of the 8,039,759 square feet of bridge deck that was rated, 70.9% or 5,697,809 square feet received an OPC condition rating of good or better, 24.1% received a fair rating, and 5.0% received a substandard deck rating. Of the 4,452 centerline miles that were rated in 2015, 95.9% received a fair or better OPC rating and 2.7% received a poor rating. No roadway condition assessment was performed for Fiscal Year 2016.

The estimate to maintain and preserve the Department's infrastructure was $242.3 million and $241.9 million for 2016 and 2015, respectively. The actual expenditures were $281.6 million and $291.6 million for 2016 and 2015, respectively.

*Debt Administration*

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

At June 30, 2016, the Authority had $986.3 million in revenue bonds outstanding, a 14.5% increase from June 30, 2015. During Fiscal Year 2016, the Department issued $212.5 million of US 301 Project Bonds, Series 2015 to provide for the construction of US 301, and $181.5 million of Transportation System Senior Revenue Bonds, 2016 Series, to provide for an advance refunding of $196.5 million prior Transportation System Senior Revenue Bonds.

At June 30, 2015, the Authority had $861.4 million in revenue bonds outstanding, an 8.3% decrease from June 30, 2014. There were no new bonds issued during Fiscal Year 2015.

On June 30, 2016 and 2015, the Authority had a total of $262.4 million in authorized but unissued revenue bonds.

Of the 11 outstanding Senior Bond Issues, all bonds are rated AA+ and Aa2 by Standard and Poor's and Moody's Investors Services, respectively. The GARVEE Bond, 2010 Series is rated AA and A1 by Standard and Poor's and Moody's Investors Services, respectively.

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

## Contacting the Department's Financial Management

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

**State of Delaware**
**Department of Transportation**
Statements of Net Position
June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | | |
| Unrestricted | $ 108,101,782 | $ 61,421,427 |
| Restricted | 18,008,044 | 3,662,536 |
| Pooled cash and investments | 9,007,609 | 8,671,555 |
| Investments - at fair value | | |
| Unrestricted | 21,025,615 | 55,413,618 |
| Restricted | 244,933,706 | 110,235,322 |
| Accounts receivable | | |
| Trade | 25,397,945 | 20,526,179 |
| Federal grants | 29,074,506 | 27,309,608 |
| Interest | 837,426 | 398,661 |
| Due from State General Fund | 12,000,000 | 17,150,000 |
| Inventory | 19,172,307 | 17,651,150 |
| Other assets | 175,354 | 207,330 |
| **Total current assets** | 487,734,294 | 322,647,386 |
| **Noncurrent assets** | | |
| Capital assets, not depreciable | | |
| Land | 306,703,771 | 298,948,128 |
| Infrastructure | 3,823,200,988 | 3,760,135,114 |
| Construction in progress | 15,672,104 | 17,169,477 |
| Service concession buildings and improvements | 22,100,000 | 22,100,000 |
| Capital assets, depreciable | | |
| Buildings and improvements | 145,591,334 | 137,531,065 |
| Fixtures, vehicles, and equipment | 308,634,718 | 294,327,575 |
| Total capital assets | 4,621,902,915 | 4,530,211,359 |
| Less: accumulated depreciation | 219,201,504 | 208,919,550 |
| Capital assets, net | 4,402,701,411 | 4,321,291,809 |
| Investments - at fair value, net of current portion | | |
| Unrestricted | 1,540,498 | 4,563,474 |
| Restricted | 110,116,879 | 70,484,736 |
| Net pension asset | - | 253,443 |
| **Total noncurrent assets** | 4,514,358,788 | 4,396,593,462 |
| **Total assets** | 5,002,093,082 | 4,719,240,848 |
| **Deferred outflows of resources** | | |
| Loss on refundings of debt | 36,409,367 | 20,448,278 |
| Changes in employer proportionate share of net pension liability | 169,728 | 212,160 |
| Differences between projected and actual earnings on pension plan investments | 3,811,702 | - |
| Pension contributions made after the measurement date | 9,016,373 | 8,740,682 |
| **Total deferred outflows of resources** | 49,407,170 | 29,401,120 |

(Continued)

**State of Delaware**
**Department of Transportation**
Statements of Net Position
June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and other accrued expenses | $ 60,851,594 | $ 41,636,648 |
| Accrued payroll and related expenses | 6,852,908 | 5,873,882 |
| Escrow deposits | 9,007,609 | 8,671,555 |
| Customer toll deposits | 15,219,424 | 14,487,762 |
| Interest payable | 17,637,903 | 20,737,791 |
| Due to State General Fund | 4,478,436 | 13,420,258 |
| Pollution remediation obligations | 883,000 | 685,000 |
| Insurance loss reserve | 2,827,546 | 2,485,340 |
| Compensated absences | 2,101,635 | 2,090,328 |
| Revenue bonds payable | 70,595,000 | 72,580,000 |
| Bond issue premium - net of accumulated amortization | 16,166,236 | 11,902,313 |
| **Total current liabilities** | 206,621,291 | 194,570,877 |
| **Noncurrent liabilities** | | |
| Other post-employment benefits payable | 236,246,729 | 214,455,157 |
| Compensated absences - net of current portion | 9,468,506 | 9,824,611 |
| Insurance loss reserve - net of current portion | 6,897,454 | 9,168,660 |
| Pollution remediation obligations - net of current portion | 2,941,500 | 1,308,000 |
| Revenue bonds payable - net of current portion | 915,700,000 | 788,820,000 |
| Bond issue premium - net of accumulated amortization and current portion | 70,904,391 | 33,576,224 |
| Net pension liability | 29,084,750 | 14,114,288 |
| **Total noncurrent liabilities** | 1,271,243,330 | 1,071,266,940 |
| **Total liabilities** | 1,477,864,621 | 1,265,837,817 |
| **Deferred inflows of resources** | | |
| Service concession arrangement | 18,311,429 | 18,942,857 |
| Changes in employer proportionate share of net pension liability | 1,453,310 | - |
| Differences between expected and actual experience - pension plans | 904,783 | - |
| Differences between projected and actual earnings on pension plan investments | 8,072,303 | 23,136,512 |
| **Total deferred inflows of resources** | 28,741,825 | 42,079,369 |
| **Net position** | | |
| Net investment in capital assets | 3,505,882,127 | 3,445,879,431 |
| Restricted | 196,601,976 | 153,169,878 |
| Unrestricted | (157,590,297) | (158,324,527) |
| **Total net position** | $ 3,544,893,806 | $ 3,440,724,782 |

See accompanying notes to financial statements.

**State of Delaware**
**Department of Transportation**
Statements of Revenues, Expenses, and Changes in Fund Net Position
June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Operating revenues** | | |
| Pledged revenue | | |
| Turnpike revenue | $ 132,517,327 | $ 120,363,461 |
| Motor fuel tax revenue | 124,573,140 | 116,968,447 |
| Motor vehicle document fee revenue | 107,765,732 | 94,037,087 |
| Motor vehicle registration fee revenue | 52,339,415 | 51,184,304 |
| Other motor vehicle revenue | 38,025,381 | 25,757,326 |
| International Fuel Tax Agreement revenue | 1,947,891 | 2,694,453 |
| Toll revenue - Delaware SR-1 | 59,813,890 | 55,767,180 |
| Passenger fares | 18,286,391 | 18,452,285 |
| Miscellaneous | 37,197,315 | 25,691,674 |
| **Total operating revenues** | 572,466,482 | 510,916,217 |
| **Operating expenses** | | |
| Road maintenance, preservation, and repairs | 179,739,803 | 151,877,179 |
| Payroll expense | 204,002,978 | 194,833,729 |
| Professional fees and services | 195,690,274 | 171,949,399 |
| Materials, supplies, and other | 47,864,001 | 55,116,758 |
| Depreciation | 27,607,867 | 27,192,855 |
| **Total operating expenses** | 654,904,923 | 600,969,920 |
| **Operating loss** | (82,438,441) | (90,053,703) |
| **Nonoperating revenues (expenses)** | | |
| Income from investments - pledged | 5,035,681 | 1,844,953 |
| Bad debt recovery | 960,395 | 923,348 |
| Federal grant revenue | 204,961,690 | 234,018,851 |
| Pass-through grant revenue | 2,483,599 | 3,336,385 |
| Pass-through grant expense | (5,375,069) | (4,962,061) |
| Interest expense | (26,132,947) | (23,482,198) |
| Service concession arrangement | 631,428 | 631,428 |
| **Excess of nonoperating revenues over nonoperating expenses** | 182,564,777 | 212,310,706 |
| **Income before transfers** | 100,126,336 | 122,257,003 |
| Transfers to other governmental agencies | (5,125,703) | (5,484,944) |
| Transfers to State General Fund | (5,000,000) | (5,000,000) |
| Transfers from State General Fund | 14,168,391 | 3,388,738 |
| **Change in fund net position** | 104,169,024 | 115,160,797 |
| **Fund net position - beginning of year, as previously stated** | 3,440,724,782 | 3,361,866,436 |
| Prior period adjustment - Implementation of GASB Nos. 68 and 71 | | |
| Net pension liability (measurement date) | - | (45,071,561) |
| Deferred outflows - Contributions made during Fiscal Year 2014 | - | 8,769,110 |
| Total prior period adjustment | - | (36,302,451) |
| **Fund net position - beginning of year, as restated** | 3,440,724,782 | 3,325,563,985 |
| **Fund net position - end of year** | $ 3,544,893,806 | $ 3,440,724,782 |

See accompanying notes to financial statements.

**State of Delaware**
**Department of Transportation**
Statements of Cash Flows
June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | $ 566,121,986 | $ 506,672,620 |
| Payments to suppliers | (405,195,277) | (383,501,170) |
| Payments to employees | (180,623,045) | (173,471,415) |
| Insurance claims paid | (6,648,744) | (5,537,731) |
| Other receipts | 2,540,447 | 2,820,390 |
| **Net cash used in operating activities** | (23,804,633) | (53,017,306) |
| **Cash flows from noncapital financing activities** | | |
| Transfers from State General Fund | 14,168,391 | 3,388,738 |
| Transfers to State General Fund | (5,000,000) | (5,000,000) |
| Federal operating subsidies | 7,671,890 | 7,475,681 |
| Pass-through grant revenue | 2,483,595 | 3,528,336 |
| Pass-through grant payments | (5,375,069) | (4,962,061) |
| Transfers to other governmental agencies | (5,125,703) | (5,484,944) |
| **Net cash provided by (used in) noncapital financing activities** | 8,823,104 | (1,054,250) |
| **Cash flows from capital and related financing activities** | | |
| Payments of revenue bond principal | (72,580,000) | (77,655,000) |
| Payments of general obligation bond principal | - | (103,426) |
| Proceeds from revenue bond sales | 394,010,000 | - |
| Premium from revenue bond sales | 56,941,890 | - |
| Amounts paid to escrow agent for refunding | (217,322,016) | - |
| Federal reimbursement of debt service | - | 276,291 |
| Proceeds from capital grants | 195,433,373 | 237,027,819 |
| Acquisition of capital assets | (104,075,701) | (76,227,912) |
| Payments of interest | (45,300,111) | (41,363,218) |
| **Net cash provided by capital and related financing activities** | 207,107,435 | 41,954,554 |
| **Cash flows from investing activities** | | |
| Purchase of investments | (3,397,323,999) | (2,352,695,177) |
| Proceeds from sale of investments | 3,260,404,451 | 2,347,892,868 |
| Collection on loans previously written off | 960,395 | 923,348 |
| Escrow insurance deposits | (3,387) | 22,971 |
| Interest received | 5,198,551 | 1,901,036 |
| **Net cash used in investing activities** | (130,763,989) | (1,954,954) |
| **Net increase (decrease) in cash and cash equivalents** | 61,361,917 | (14,071,956) |
| **Cash and cash equivalents - beginning of year** | 73,755,518 | 87,827,474 |
| **Cash and cash equivalents - end of year** | $ 135,117,435 | $ 73,755,518 |

(Continued)

**State of Delaware**
**Department of Transportation**
Statements of Cash Flows
June 30, 2016 and 2015

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **Reconciliation of operating loss to net cash used in operating activities** | | | | |
| Operating loss | $ | (82,438,441) | $ | (90,053,703) |
| Adjustment to reconcile operating loss to net cash used in operating activities | | | | |
| Depreciation | | 27,607,867 | | 27,192,855 |
| Adoption of GASB Nos. 68 and 71 | | - | | 3,519,700 |
| Changes in assets and liabilities | | | | |
| Increase in accounts receivable - trade | | (4,871,766) | | (2,336,668) |
| (Increase) decrease in due from State General Fund | | 5,150,000 | | (17,150,000) |
| (Increase) decrease in inventory | | (1,521,157) | | 51,260 |
| Decrease in prepaid expenses | | 35,363 | | 28,965 |
| Pension adjustment | | (1,435,639) | | (7,207,210) |
| Increase in accounts payable and other accrued expenses | | 19,214,946 | | 192,355 |
| Increase (decrease) in escrow deposits | | 336,054 | | (1,440,964) |
| Decrease in insurance loss reserve | | (1,929,000) | | (357,000) |
| Increase (decrease) in due to State General Fund | | (8,941,822) | | 13,420,258 |
| Decrease in compensated absences | | (344,798) | | (351,656) |
| Increase in accrued payroll and related expenses | | 979,026 | | 531,859 |
| Decrease in unearned revenue | | - | | (56,675) |
| Increase in customer toll deposits | | 731,662 | | 2,566,534 |
| Increase (decrease) in pollution remediation obligations | | 1,831,500 | | (1,518,500) |
| Increase in post-employment benefits payable | | 21,791,572 | | 19,951,284 |
| **Net cash used in operating activities** | $ | (23,804,633) | $ | (53,017,306) |

See accompanying notes to financial statements.

## (1) Organization

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

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

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

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in Fiscal Year 1995 as a subsidiary public benefit corporation of the Authority. With approval of the Governor, the Secretary appoints the Director of DTC, who serves at the pleasure of the Secretary. The Authority provides significant operational subsidies to DTC annually. DTC is authorized to operate the public transportation system within the State and provides services directly to the public. As a result, it is a blended component unit of the Authority. Separate financial statements for DTC are available by writing to the State of Delaware Department of Transportation, 800 Bay Road, Dover, Delaware 19903.

## (2) Summary of Significant Accounting Policies

### *(a) Measurement Focus and Basis of Accounting*

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

### *(b) Cash and Cash Equivalents*

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

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

### *(c) Allowance for Doubtful Accounts*

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

### *(d) Inventory*

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

### *(e) Investments*

Investments are recorded at fair value. Fair value is determined using quoted market prices in an active market, if available. For certain U.S. government agency and corporate fixed-income securities, for which an active market does not exist, fair value is determined using a discounted cash flow model. Significant inputs to the discounted cash flow model are the coupon, yield, and expected maturity date of the security.

### *(f) Management Estimates*

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

### *(g) Capital Assets*

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

Capital assets are defined by the State as assets with an initial individual cost of more than $25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department, with the exception of DTC, to capitalize all buildings and land regardless of cost, improvements to land and buildings when the cost of projects exceed $100,000, and infrastructure when the cost of individual items or projects exceeds $1,000,000. Such assets are recorded at historical cost, or estimated historical cost, if original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings, improvements, fixtures, vehicles, and equipment are depreciated on a straight-line basis.

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

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

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

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

Buildings, improvements, fixtures, vehicles, and equipment, other than those associated with service concession agreements, are depreciated using the straight-line method over the following estimated useful lives:

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

***(h) Compensated Absences***

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

***(i) Line of Credit***

The Trust Fund has a line of credit agreement with PNC Bank for $50,000,000 that matures November 2016. There were no borrowings against the line at June 30, 2016 and 2015. The line bears interest on the amount that has been advanced from time to time pursuant to the bank loan agreements. At June 30, 2016 and 2015, the interest rate was equal to 0.8350% and 0.6975%, respectively.

***(j) Revenue Recognition***

*Turnpike/Toll Revenue* - Turnpike/Toll revenues consist primarily of fees for the usage of the Delaware Turnpike and the toll portion of Delaware SR-1 and are recognized at the time vehicles pass through the toll plazas.

*Motor Fuel Tax Revenue* - Motor fuel tax revenues are generally recognized at the time fuel is dispensed to the ultimate user.

*Motor Vehicle Revenue* - Motor vehicle revenues are recognized at the time services are provided to customers.

*Passenger Fare*s - Passenger fare revenues are recorded at the time services are provided.

### *(k) Bond Issue Premiums/Discounts*

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Net amortization resulted in $14,427,062 and $20,260,657 of reductions of interest expense in 2016 and 2015, respectively.

### *(l) Revenues and Expenses*

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

### *(m) Deferred Outflows of Resources and Deferred Inflows of Resources*

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

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

| | 2016 | 2015 |
|---|---|---|
| **Deferred outflows of resources** | | |
| Loss on refundings of debt | $ 36,409,367 | $ 20,448,278 |
| Changes in employer proportionate share of net pension liability | 169,728 | 212,160 |
| Differences between projected and actual earnings on pension plan investments | 3,811,702 | - |
| Pension contributions made after the measurement date | 9,016,373 | 8,740,682 |
| Total deferred outflows of resources | $ 49,407,170 | $ 29,401,120 |
| **Deferred inflows of resources** | | |
| Service concession arrangement | $ 18,311,429 | $ 18,942,857 |
| Changes in employer proportionate share of net pension liability | 1,453,310 | - |
| Differences between expected and actual experience - pension plans | 904,783 | - |
| Differences between projected and actual earnings on pension plan investments | 8,072,303 | 23,136,512 |
| Total deferred inflows of resources | $ 28,741,825 | $ 42,079,369 |

### *(n) New Accounting Standards Adopted*

During the Fiscal Year Ended June 30, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. The adoption of this Statement resulted in additional financial statement disclosures.

During the Fiscal Year Ended June 30, 2015, the Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan. The adoption of this Statement resulted in the recognition of a net pension liability of $45,071,561 and a reduction of net position of $45,071,561 as of June 30, 2014.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in November 2013. This Statement addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer, or nonemployer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The adoption of this Statement resulted in the recognition of deferred outflows and an increase in net position of $8,769,110 as of June 30, 2014.

## (3) Cash and Investments

### *(a) Cash Management Policy and Investment Guidelines*

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

All deposits and investments of the Department are categorized as "Authority Accounts." As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2016 and 2015, investments of the Department are primarily in U.S. government securities, U.S. government agency securities, and commercial paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Agreement.

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

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

**Deposits**

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

The Board has also determined that State demand deposits need not be collateralized, provided that any bank that holds these funds has, for any quarter during the most recent eight quarters, a return on average assets of 0.5% or greater and an average capital ratio (total equity to total assets) of 5% or greater. If the bank does not meet either of these criteria, collateral must be pledged and shall consist of one or more of the following securities:

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

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

The Department's cash and cash equivalents held at external financial institutions at June 30, 2016 and 2015 were $126,109,826 and $65,083,963, respectively, and the bank balances were $125,917,047 and $65,143,472, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. Of the bank balances, $125,856,355 and $65,025,933 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2016 and 2015, respectively. The remaining bank balances of $60,692 and $117,539 were neither insured nor collateralized at June 30, 2016 and 2015, respectively.

As of June 30, 2016 and 2015, the Department also had $9,007,609 and $8,671,555, respectively, held in the State Investment Pool by the State Treasurer's Office. The State Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The State Investment Pool includes deposit accounts and short- and long-term investments. The deposits held in the State Investment Pool are allocated to the Department, but the custodial credit risk cannot be categorized for these deposits.

**Investments**

At June 30, 2016 and 2015, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name.

The Department measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

At June 30, 2016, the Department's investments of $377,616,698 were Level 2. At June 30, 2015, the Department's investments were not required to be categorized under the hierarchy.

***(c) Interest Rate Risk***

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

The following table presents a listing of directly held investments and related maturities at June 30, 2016:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1** | **1 - 5** | **6 - 10** |
| U.S. government securities | $ 67,380,847 | $ 25,453,286 | $ 21,995,223 | $ 19,932,338 |
| U.S. government agency securities | 207,576,892 | 144,561,866 | 43,974,560 | 19,040,466 |
| Commercial paper | 102,143,810 | 95,429,020 | 6,714,790 | - |
| Certificates of deposit | 515,149 | 515,149 | - | - |
| Total investments | $ 377,616,698 | $ 265,959,321 | $ 72,684,573 | $ 38,972,804 |

The following table presents a listing of directly held investments and related maturities at June 30, 2015:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1** | **1 - 5** | **6 - 10** |
| U.S. government securities | $ 44,163,109 | $ 7,465,654 | $ 15,762,877 | $ 20,934,578 |
| U.S. government agency securities | 133,670,692 | 96,036,031 | 16,993,478 | 20,641,183 |
| Commercial paper | 62,863,349 | 61,951,359 | 911,990 | - |
| Total investments | $ 240,697,150 | $ 165,453,044 | $ 33,668,345 | $ 41,575,761 |

### *(d) Credit Risk*

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

In addition, the Trust Agreement limits investments in commercial paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in commercial paper of $102,143,810 and $62,863,349 at June 30, 2016 and 2015, respectively. All commercial paper held matures within five years and is rated in accordance with the Trust Agreement. The investments in U.S. government and government agency securities are rated at Aaa with Moody's and AA+ with Standard & Poor's.

### *(e) Investments in Excess of 5%*

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

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

A. U.S. government - no restrictions.

B. Government agency - 50% total; 20% in any one agency.

C. Certificates of deposit, time deposits, and bankers acceptances - 50% total; 5% in any one issuer.

   1. Domestic - No additional restrictions.
   2. Nondomestic - 25%.
   3. Delaware domiciled - Not more than the lesser of $10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

   1. Domestic - No additional restrictions.
   2. Nondomestic - 25%; 5% in any one issuer.

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

G. Money market funds - 25% total; 10% in any one fund.

H. Canadian treasuries - 25% total; 10% in any one agency.

I. Canadian agency securities - 25% total; 10% in any one agency.

J. Mortgage-backed and asset-backed securities - 10% total (when combined with asset-backed securities and trust certificates, if applicable).

K. Municipal obligations - 5% in any one issuer.

L. Guaranteed investment contracts - Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

M. Asset-backed securities and trust certificates - 10% total (when combined with mortgage-backed and asset-backed securities, if applicable).

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2016:

| | | |
|---|---|---|
| Federal National Mortgage Association | $ 93,974,109 | 25% |
| United States Treasury | 67,380,847 | 18 |
| Federal Home Loan Mortgage Corporation | 44,528,115 | 12 |
| Federal Home Loan Bank | 39,882,587 | 11 |
| Federal Farm Credit Bank | 29,192,081 | 8 |

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2015:

| | | |
|---|---|---|
| Federal National Mortgage Association | $ 94,370,094 | 39% |
| United States Treasury | 44,163,109 | 18 |
| Federal Home Loan Mortgage Corporation | 29,108,830 | 12 |
| Commonwealth Bank of Australia | 14,499,285 | 6 |

### *(f) Investment Commitments*

The Department has made no investment commitments as of June 30, 2016.

### *(g) Funding of Unpaid Loss Insurance Reserve Liability*

Included in cash at Fiscal Years June 30, 2016 and 2015 was $9,554,257 and $11,486,643, respectively, which will be utilized to fund the remaining loss insurance liability (Note 15) less the escrow insurance deposits.

## (4) Capital Assets

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 298,948,128 | $ 7,755,643 | $ - | $ 306,703,771 |
| Infrastructure | 3,760,135,114 | 63,065,874 | - | 3,823,200,988 |
| Service concession buildings and improvements | 22,100,000 | - | - | 22,100,000 |
| Construction-in-progress | 17,169,477 | 7,946,561 | (9,443,934) | 15,672,104 |
| Total capital assets not being depreciated | 4,098,352,719 | 78,768,078 | (9,443,934) | 4,167,676,863 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 137,531,065 | 8,203,580 | (143,311) | 145,591,334 |
| Furniture, vehicles, and equipment | 294,327,575 | 32,047,833 | (17,740,690) | 308,634,718 |
| Total capital assets being depreciated | 431,858,640 | 40,251,413 | (17,884,001) | 454,226,052 |
| Less: accumulated depreciation for | | | | |
| Buildings and improvements | 45,109,704 | 4,163,127 | (134,634) | 49,138,197 |
| Furniture, vehicles, and equipment | 163,809,846 | 23,444,740 | (17,191,279) | 170,063,307 |
| Total accumulated depreciation | 208,919,550 | 27,607,867 | (17,325,913) | 219,201,504 |
| Total capital assets being depreciated, net | 222,939,090 | 12,643,546 | (558,088) | 235,024,548 |
| Total capital assets, net | $ 4,321,291,809 | $ 91,411,624 | $ (10,002,022) | $ 4,402,701,411 |

Depreciation expense for Fiscal Year 2016 was $27,607,867. Increases in capital assets include capitalized construction period interest of $4,941,768 for Fiscal Year 2016.

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 288,612,090 | $ 10,336,038 | $ - | $ 298,948,128 |
| Infrastructure | 3,723,674,937 | 36,460,177 | - | 3,760,135,114 |
| Service concession buildings and improvements | 22,100,000 | - | - | 22,100,000 |
| Construction-in-progress | 34,086,538 | 2,451,633 | (19,368,694) | 17,169,477 |
| Total capital assets not being depreciated | 4,068,473,565 | 49,247,848 | (19,368,694) | 4,098,352,719 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 118,630,402 | 18,905,663 | (5,000) | 137,531,065 |
| Furniture, vehicles, and equipment | 296,476,030 | 27,806,694 | (29,955,149) | 294,327,575 |
| Total capital assets being depreciated | 415,106,432 | 46,712,357 | (29,960,149) | 431,858,640 |
| Less: accumulated depreciation for | | | | |
| Buildings and improvements | 41,172,399 | 3,942,305 | (5,000) | 45,109,704 |
| Furniture, vehicles, and equipment | 170,100,989 | 23,250,550 | (29,541,693) | 163,809,846 |
| Total accumulated depreciation | 211,273,388 | 27,192,855 | (29,546,693) | 208,919,550 |
| Total capital assets being depreciated, net | 203,833,044 | 19,519,502 | (413,456) | 222,939,090 |
| Total capital assets, net | $ 4,272,306,609 | $ 68,767,350 | $ (19,782,150) | $ 4,321,291,809 |

Depreciation expense for Fiscal Year 2015 was $27,192,855. There was no capitalized construction period interest for Fiscal Year 2015.

## (5) Changes in Long-Term Liabilities

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds | $ 861,400,000 | $ 394,010,000 | $ (269,115,000) | $ 986,295,000 | $ 70,595,000 |
| Bond issue premium, net of accumulated amortization | 45,478,537 | 56,941,890 | (15,349,800) | 87,070,627 | 16,166,236 |
| Insurance loss reserve | 11,654,000 | 4,719,744 | (6,648,744) | 9,725,000 | 2,827,546 |
| Post-employment benefits | 214,455,157 | 34,659,863 | (12,868,291) | 236,246,729 | - |
| Pollution remediation obligations | 1,993,000 | 3,772,985 | (1,941,485) | 3,824,500 | 883,000 |
| Net pension liability | 14,114,288 | 14,970,462 | - | 29,084,750 | - |
| Compensated absences | 11,914,939 | - | (344,798) | 11,570,141 | 2,101,635 |
| Long-term liabilities | $ 1,161,009,921 | $ 509,074,944 | $ (306,268,118) | $ 1,363,816,747 | $ 92,573,417 |

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds | $ 939,055,000 | $ - | $ (77,655,000) | $ 861,400,000 | $ 72,580,000 |
| General obligation bonds | 103,426 | - | (103,426) | - | - |
| Bond issue premium, net of accumulated amortization | 65,739,194 | - | (20,260,657) | 45,478,537 | 11,902,313 |
| Insurance loss reserve | 12,011,000 | 5,180,731 | (5,537,731) | 11,654,000 | 2,485,340 |
| Post-employment benefits | 194,503,873 | 31,551,284 | (11,600,000) | 214,455,157 | - |
| Pollution remediation obligations | 3,511,500 | - | (1,518,500) | 1,993,000 | 685,000 |
| Net pension liability | - | 14,114,288 | - | 14,114,288 | - |
| Compensated absences | 12,266,595 | - | (351,656) | 11,914,939 | 2,090,328 |
| Long-term liabilities | $ 1,227,190,588 | $ 50,846,303 | $ (117,026,970) | $ 1,161,009,921 | $ 89,742,981 |

## (6) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2016 and 2015 were as follows:

| Date of Issue/ Maturity | Amount of Original Issue | Description and Fixed Interest Rates | 2016 | 2015 |
|---|---|---|---|---|
| Senior Bonds: | | | | |
| 2005/2025 | $ 150,000,000 | Transportation System Senior Revenue Bonds, 2005, 5.00% | $ - | $ 7,870,000 |
| 2006/2026 | 127,445,000 | Transportation System Senior Revenue Bonds, 2006, 5.00% | 6,160,000 | 39,035,000 |
| 2007/2021 | 87,890,000 | Transportation System Senior Revenue Bonds, 2007A, 4.50% - 5.00% | 50,030,000 | 50,135,000 |
| 2008/2028 | 84,720,000 | Transportation System Senior Revenue Bonds, 2008A, 5.00% | 19,680,000 | 62,575,000 |
| 2008/2029 | 117,875,000 | Transportation System Senior Revenue Bonds, 2008B, 5.00% | 20,395,000 | 97,620,000 |
| 2009/2029 | 105,315,000 | Transportation System Senior Revenue Bonds, 2009A, 5.00% | 19,335,000 | 92,180,000 |
| 2010/2019 | 47,715,000 | Transportation System Senior Revenue Bonds, 2010A, 5.00% | 28,820,000 | 32,990,000 |
| 2010/2030 | 72,120,000 | Transportation System Senior Revenue Bonds, 2010B, 3.95% - 5.80% | 72,120,000 | 72,120,000 |
| 2012/2024 | 222,870,000 | Transportation System Senior Revenue Bonds, 2012, 3.00% - 5.00% | 201,595,000 | 211,540,000 |
| 2014/2025 | 108,760,000 | Transportation System Senior Revenue Bonds, 2014, 2.25% - 5.00% | 94,565,000 | 108,760,000 |
| 2016/2029 | 181,475,000 | Transportation System Senior Revenue Bonds, 2016, 2.00% - 5.00% | 181,475,000 | - |
| Other Bonds: | | | | |
| 2010/2025 | 113,490,000 | Transportation System Grant Anticipation (GARVEE) Bonds, 2010, 3.25% - 5.00% | 79,585,000 | 86,575,000 |
| 2015/2055 | 212,535,000 | Transportation System US 301 Project Revenue Bonds, 2015, 3.25% - 5.00% | 212,535,000 | - |
| | | Total bonds payable | 986,295,000 | 861,400,000 |
| | | Less: current portion | 70,595,000 | 72,580,000 |
| | | Long-term portion | $ 915,700,000 | $ 788,820,000 |

The State has pledged turnpike, motor fuel tax, and motor vehicle fee revenues to the Trust Fund in order to support repayments of revenue bonds. Proceeds from the revenue bonds were used to finance the infrastructure maintenance, preservation, and construction-related projects of the State's highway transportation system, as well as security for the repayment of the outstanding revenue bonds of the Authority.

The 2015 Series US 301 Project Revenue Bonds are secured by pledged revenues from US 301 tolls and a subordinate lien on other pledged revenue, including motor fuel tax, state registration and document fees, and Delaware Turnpike toll and concession revenues. Proceeds are used to finance US 301 construction.

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State or of any such political subdivision.

Annual principal and interest payments on the revenue bonds are expected to require less than 20% of pledged revenues. Principal and interest paid on the revenue bonds for the Fiscal Years Ended June 30, 2016 and 2015 were $117,029,967 and $119,121,644, respectively.

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

| | 2016 | 2015 |
|---|---|---|
| Pledged operating revenues | $ 457,168,886 | $ 411,005,078 |
| Investment income | 5,035,681 | 1,844,953 |
| Total pledged revenues | $ 462,204,567 | $ 412,850,031 |

The Transportation System GARVEE Bonds have fixed interest rates and are limited obligations of the Authority secured by and payable solely from the annual federal appropriation for the State's federal aid transportation projects. On average, the State has been apportioned approximately $163 million in federal highway aid annually over the past five fiscal years. At that level, principal and interest payments on the GARVEE bonds are expected to require approximately 6.7% of pledged federal highway aid annually. While the Authority believes that sufficient pledged federal highway aid will be available during the term of the bonds to meet all required principal and interest payments, various factors beyond the Authority's control may impact the ability to make all payments when due, including, but not limited to, subsequent reauthorization of federal highway aid and federal budgetary limitations.

At June 30, 2016 and 2015, the Authority had a total of $262,369,957 in authorized but unissued revenue bonds, including $11,510,000 in GARVEE bond authorization, to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2016 was as follows:

| Years Ending June 30, | Principal Maturity | Interest Maturity | Total |
|---|---|---|---|
| 2017 | $ 70,595,000 | $ 44,581,132 | $ 115,176,132 |
| 2018 | 69,880,000 | 41,848,870 | 111,728,870 |
| 2019 | 73,945,000 | 38,290,195 | 112,235,195 |
| 2020 | 73,930,000 | 34,665,463 | 108,595,463 |
| 2021 | 75,525,000 | 31,156,880 | 106,681,880 |
| 2022 - 2026 | 312,660,000 | 105,387,891 | 418,047,891 |
| 2027 - 2031 | 111,345,000 | 57,558,392 | 168,903,392 |
| 2032 - 2036 | 11,885,000 | 46,950,200 | 58,835,200 |
| 2037 - 2041 | 18,140,000 | 44,172,125 | 62,312,125 |
| 2042 - 2046 | 35,385,000 | 38,592,900 | 73,977,900 |
| 2047 - 2051 | 60,310,000 | 27,700,250 | 88,010,250 |
| 2052 - 2055 | 72,695,000 | 9,354,750 | 82,049,750 |
| | $ 986,295,000 | $ 520,259,048 | $ 1,506,554,048 |

On December 16, 2015, the Trust Fund issued $212,535,000 of US 301 Project Revenue Bonds, 2015 Series, maturing between June 1, 2021 and June 1, 2055. The bonds bear coupon rates between 3.25% and 5%. The bonds were issued to provide funding for the US 301 project.

On January 1, 2016, the Trust Fund issued $181,475,000 of Transportation System Senior Revenue Bonds, 2016 Series, maturing between July 1, 2019 and July 1, 2029. The bonds bear coupon rates between 2% and 5%. The bonds were issued to provide for an advance refunding of the following Transportation System Senior Revenue Bonds:

| | |
|---|---|
| 2006 Series | $ 27,010,000 |
| 2008 Series A | 28,275,000 |
| 2008 Series B | 72,675,000 |
| 2009 Series A | 68,575,000 |
| | $ 196,535,000 |

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $24,215,062, and a reduction of $28,930,084 in future debt service payments.

## (7) Debt Defeasance

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

For financial reporting purposes, the debt is considered defeased, and therefore, not reported as a liability. As of June 30, 2016 and 2015, the amount of defeased debt outstanding amounted to $248,205,000 and $130,535,000, respectively.

## (8) Restricted Net Position

Restricted net position was as follows at June 30,:

| | 2016 | 2015 |
|---|---|---|
| Pension funds | | |
| Prepaid DTC pension contribution | $ - | $ 253,443 |
| Rebate funds | | |
| Amounts generated from operations to meet future arbitrage rebate requirements | 457,559 | 366,165 |
| Debt service funds | | |
| Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments | 113,410,628 | 87,935,654 |
| Debt reserve funds | | |
| Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments | 82,549,709 | 64,411,921 |
| Highway beautification funds | | |
| Amounts held in trust to be used for highway beautification | 184,080 | 202,695 |
| Total restricted net position | $ 196,601,976 | $ 153,169,878 |

## (9) International Registration Plan

The Department participates in the International Registration Plan (IRP) pursuant to Section 4008 of the Intermodal Surface Transportation Efficiency Act of 1997 (ISTEA). ISTEA requires jurisdictions to join base state agreements for the collection and distribution of commercial vehicle registration fees. IRP is an agreement among member jurisdictions whereby commercial registration fees are collected and reallocated based on a proration of miles traveled in each jurisdiction. Net revenues recorded during Fiscal Years 2016 and 2015 were $8,946,973 and $9,222,460, respectively. IRP fees are included in motor vehicle registration fee revenue.

## (10) International Fuel Tax Agreement

The Department participates in the International Fuel Tax Agreement (IFTA). IFTA is an agreement among member jurisdictions whereby commercial license fees are collected and reallocated based on a proration of miles traveled in each jurisdiction. Net revenues recorded during Fiscal Years 2016 and 2015 were $1,947,891 and $2,694,453, respectively.

## (11) DTC Union Contracts

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

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

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

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

## (12) Pension Plans

### A. State Employees' Pension Plan

With the exception of DTC employees (see Note 12B); the Department's full-time employees are covered by the State Employees' Pension Plan (the Plan), a cost-sharing, multiple-employer, defined benefit plan, which is administered by the Delaware Public Employees Retirement System (DPERS). The General Assembly is responsible for setting benefits and contributions and amending Plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Pension Board).

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

#### *(1) Plan Description and Eligibility*

The Plan covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities. There are two tiers within this Plan: 1) Employees hired prior to January 1, 2012 (Pre-2012) and 2) Employees hired on or after January 1, 2012 (Post-2011).

**Service Benefits**

Final average monthly compensation (employees hired Post-2011 may not include overtime in pension compensation) multiplied by 2% and multiplied by the years of credited service prior to January 1, 1997, plus final average monthly compensation, multiplied by 1.85%, and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For the Plan, the average monthly compensation is the monthly average of the highest three periods of 12 consecutive months of compensation.

**Vesting**

Pre-2012 date of hire members are fully vested after five years of credited service, and Post-2011 date of hire members are fully vested after 10 years of credited service.

**Retirement**

Pre-2012 date of hire members are eligible to retire at age 62 with five years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Post-2011 date of hire members are eligible to retire at age 65 with at least 10 years of credited service; age 60 with 20 years of credited service; or with 30 years of credited service at any age.

**Disability Benefits**

Pre-2012 date of hire members receive the same as service benefits and must have five years of credited service. In lieu of disability pension benefits, over 90% of members of the Plan opted into the Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 date of hire members are provided disability benefits through the State's Disability Insurance Program.

**Survivor Benefits**

If an employee is receiving a pension and passes away, the eligible survivor receives 50% of the pension (or 75% with a 3% reduction of benefit). If an employee is active with at least five years of credited service and passes away, the eligible survivor receives 75% of the benefit the employee would have received at age 62.

**Burial Benefit**

The burial benefit is $7,000 per member.

**Contributions**

The Pension Board's employer-determined contributions, based principally on an actuarially determined rate, were 9.5% for both Fiscal Years 2015 and 2014. The Department's contributions to the Plan for Fiscal Years 2015 and 2014 were $6,508,133 and $6,702,782, respectively. Pre-2012 date of hire members are required to contribute 3% of earnings in excess of $6,000, and Post-2011 date of hire members are required to contribute 5% of earnings in excess of $6,000.

***(2) Allocation Percentage Methodology***

In accordance with GASB No. 68, DPERS prepared a Schedule of Pension Amounts by Participating Employer, which calculates the employer's proportionate share of the Plan's collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. DPERS's management has elected to allocate the employer's proportionate shares of the collective pension amounts based on the percentage of actual employer contributions. The Department's proportionate share of the collective pension amounts was 3.6502% and 3.8332% at June 30, 2015 and 2014, respectively.

***(3) Net Pension Liability***

For the Fiscal Years Ended June 30, 2016 and 2015, the Department reported a net pension liability in the amount of $24,283,925 and $14,114,288, respectively, for its proportionate share of the Plan's collective net pension liability. The net pension liability for the June 30, 2016 and 2015 measurement dates was determined by actuarial valuations as of June 30, 2015 and 2014, respectively, and update procedures were used to roll forward the valuation results. The actuarial valuations and related update procedures used the following actuarial assumptions:

| | 2015 | 2014 |
|---|---|---|
| Investment rate of return/discount rate, including inflation | 7.20% | 7.20% |
| Projected salary increases, including inflation | 3.50% to 11.50% | 3.50% to 11.50% |
| Cost-of-living adjustments | 0.00% | Ad-hoc |
| Inflation | 3.00% | 3.00% |

These assumptions are based on an experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the Sex Distinct RP - 2000 Combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

*Long-Term Expected Rate of Return* - The long-term expected rate of return on Plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected Plan investments, and adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the DPERS's current and expected asset allocation is summarized in the following table.

| Asset Class | Long-Term Expected Real Rate of Return | Asset Allocation Percentage |
|---|---|---|
| Domestic equity | 5.7 % | 36.5 % |
| International equity | 5.7 | 16.5 |
| Fixed income | 2.0 | 22.6 |
| Non-traditional investments | 7.8 | 4.8 |
| Cash and cash equivalents | - | 19.6 |

*Discount Rate* - The discount rate used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Pension Board, as actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all the projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the Department's proportionate share of the Plan's net pension liability, calculated using the discount rate of 7.2%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or higher than the current rate (expressed in thousands):

| Valuation Date | 1% Decrease | Discount Rate | 1% Increase |
|---|---|---|---|
| June 30, 2015 | $ 54,865 | $ 24,284 | $ (11,560) |
| June 30, 2014 | $ 52,896 | $ 14,114 | $ (18,664) |

*Expected and Actual Experience Differences* - The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members, which is six years. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources. The collective amount of the difference between expected and actual experience for the Fiscal Year Ended June 30, 2015 was $653,666, of which $108,944 was recognized as a reduction in current year pension expense and $544,722 was recognized as a deferred inflow of resources at June 30, 2016. The collective amount of the difference between expected and actual experience for the Fiscal Year Ended June 30, 2014 was $0.

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

*Changes in Employer Proportionate Share* **-** The change in employer proportionate share is the amount of the difference between the employer proportionate share of the net pension liability in the prior year compared to the current year. This change in proportion is amortized over the weighted average of the expected remaining service life of active and inactive Plan members, which is six years. The first year of amortization is recognized as pension expense, with the remaining years recognized as a deferred inflow or outflow of resources. The amount of difference of the Department's proportionate share from Fiscal Year 2014 to Fiscal Year 2015 was $1,743,972, of which $290,662 was recognized as a reduction in pension expense for the Fiscal Year Ended June 30, 2016, and $1,453,310 was recognized as a deferred inflow of resources at June 30, 2016. The amount of difference of the Department's proportionate share from Fiscal Year 2013 to Fiscal Year 2014 was $254,592, of which $42,432 was recognized as pension expense for the Fiscal Year Ended June 30, 2015, and $212,160 was recognized as a deferred outflow of resources at June 30, 2015.

*Differences Between Projected and Actual Investment Earnings on Pension Plan Investments* **-** The difference between the actual earnings on Plan investments compared to the Plan's expected rate of return of 7.2% is amortized over a closed period of five years. The first year of amortization is recognized as pension expense, with the remaining four years recognized as a deferred inflow of resources. The collective amount of the difference between projected and actual earnings for the Fiscal Year Ended June 30, 2015 was $11,747,068, of which $2,349,414 was recognized in pension expense for the Fiscal Year Ended June 30, 2016, and $9,397,654 was recognized as a deferred outflow of resources at June 30, 2016. The collective amount of the difference between projected and actual earnings for the Fiscal Year Ended June 30, 2014 was $28,037,681, of which $5,607,536 was recognized as a reduction in pension expense for the Fiscal Year Ended June 30, 2015, and $22,430,145 was recognized as a deferred inflow of resources at June 30, 2015.

### *(4) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources*

For the Fiscal Years Ended June 30, 2016 and 2015, the Department recognized $4.9 and $2.8 million in pension expense, respectively, which represents its proportionate share of the Plan's collective pension expense.

As of June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between projected and actual earnings on plan investments | $ - | $ 7,424,954 |
| Differences between expected and actual experience - pension plans | - | 544,722 |
| Changes in employer proportionate share of net pension liability | 169,728 | 1,453,310 |
| Pension contributions made after the measurement date | 6,508,251 | - |
| Totals | $ 6,677,979 | $ 9,422,986 |

As of June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between projected and actual earnings on plan investments | $ - | $ 22,430,145 |
| Changes in employer proportionate share of net pension liability | 212,160 | - |
| Pension contributions made after the measurement date | 6,508,133 | - |
| Totals | $ 6,720,293 | $ 22,430,145 |

Contributions made subsequent to the measurement period of June 30, 2015 (Fiscal Year 2016 contributions) will be recognized as a reduction to the net pension liability in Fiscal Year 2017. The remaining components of collective deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on DPERS's investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all Plan members, beginning in the year in which the deferred amount occurs. The amortization period is six years for the Plan for deferred amounts arising in 2015. The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs. The net amount of the Department's proportionate share of the net collective deferred outflows (inflows) will be recognized in pension expense during the Fiscal Years Ended June 30,:

| | |
|---|---|
| 2017 | $ (3,615,297) |
| 2018 | (3,615,297) |
| 2019 | (3,615,297) |
| 2020 | 1,992,239 |
| 2021 | (399,606) |

## B. DTC Pension Plans

### *(1) Plan Descriptions*

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

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

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

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

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

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

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

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

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

***(2) Benefits***

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

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

***(3) Funding Policy***

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

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

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

***(4) Net Pension Liability (Asset)***

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

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

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

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

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

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

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

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

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

### *(5) Discount Rate*

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

### *(6) Changes in the Net Pension Liability (Asset)*

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

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

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

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

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

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

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

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| DTC Plan (7.5%) | $ 3,619,855 | $ 927,932 | $ (1,343,018) |
| DART Plan (7.0%) | $ 3,236,223 | $ (1,181,275) | $ (4,978,492) |

***(8) Expected and Actual Experience Difference***

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

***(9) Change in Assumptions***

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

## *(10) Difference Between Projected and Actual Investment Earnings on Pension Plan Investments*

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

## *(11) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources*

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

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

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

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

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

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

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

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

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

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

## *(12) Payable to the Plans*

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

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

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

With the exception of DTC employees (see below) the Department's eligible employees are covered under the OPEB Trust.

### *(a) Plan Description*

On July 1, 2007, the OPEB Trust was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. The OPEB Trust is administered by the DPERS's Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer, defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, Open State Police, and Closed State Police pension plans. The State has elected to assume the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University, University of Delaware, Delaware State Housing Authority, Delaware Charter Schools, and Delaware Solid Waste Authority.

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

| | 2016 | 2015 |
|---|---|---|
| Retirees and beneficiaries receiving benefits | 20,970 | 20,970 |
| Terminated plan members entitled to, but not yet receiving, benefits | 3,205 | 3,205 |
| Active eligible plan members | 36,748 | 36,748 |
| Totals | 60,923 | 60,923 |

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

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

**Eligibility**

State employees:

*Early Retirement*: Age 55 with 15 years of service or any age with 25 years of service.

*Normal Retirement (hired before January 1, 2012)*: Age 62 with five years of service, age 60 with 15 years of service, or any age with 30 years of service.

*Normal Retirement (hired on or after January 1, 2012)*: Age 65 with 10 years of service, age 60 with 20 years of service, or any age with 30 years of service.

Judges:

*Normal Retirement (before July 1, 1980)*: Age 65 with 12 years of service, any age with 24 years of service, or involuntarily retired after 22 years of service as a judge.

*Normal Retirement (after June 30, 1980)*: Age 62 with 12 years of service, any age with 24 years of service, or involuntarily retired after 22 years of service as a judge.

Closed State Police:

*Normal Retirement*: Age 55 or 20 years of service.

Open State Police:

*Normal Retirement*: Employed at age 55 with 10 years of service, any age with 20 years of service, or 10 years of service when age plus service equals 75.

**Benefits**

During the Fiscal Years Ended June 30, 2016 and 2015, the State provided health insurance options through several providers.

**Spouse and Survivor Coverage**

Spouse and survivor coverage is available under any of the plan options with similar retiree contributions.

**Employee Contributions**

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

| Years of Service | Percent of Premium Paid by State |
|---|---|
| Less than 10 | 0 % |
| 10 - 14 | 50 |
| 15 - 19 | 75 |
| 20 or more | 100 |

### *(b) Funding Policy*

The State funds the OPEB Trust for current retirees on a pay-as-you-go basis, along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad-hoc basis. By State statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS's Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the OPEB Trust.

### *(c) Contributions*

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percentage of covered payroll, with an additional amount to pre-fund benefits, which is not actuarially determined. For Fiscal Year 2016, the State contribution in relation to the annual required contribution (ARC) totaled $217.8 million. The portion of the contribution allocated to the Department for Fiscal Year 2016 was $11.0 million. For Fiscal Year 2015, the State contribution in relation to the ARC totaled $226.3 million. The portion of the contribution allocated to the Department for Fiscal Year 2015 was $11.4 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage during Fiscal Years 2016 and 2015 totaled $10.2 and $8.0 million, respectively.

### *(d) Annual OPEB Cost and Net OPEB Obligation*

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

The following table shows the components of the State's annual OPEB cost, the amount actually contributed to the plan, the State's net OPEB obligation, and the amounts allocated to the Department for the Fiscal Year Ended June 30, 2016:

| | (in Millions) State Total | (in Millions) Department Allocation |
|---|---|---|
| **Net OPEB obligation as of June 30, 2015** | $ 2,174.5 | $ 112.9 |
| Annual required contribution | 425.6 | 21.6 |
| Interest on net OPEB obligation | 92.4 | 4.7 |
| Adjustment to annual required contribution | (83.9) | (4.3) |
| **Annual OPEB cost** | 2,608.6 | 134.9 |
| Employer contributions | (217.8) | (11.0) |
| **Net OPEB obligation as of June 30, 2016** | $ 2,390.8 | $ 123.9 |

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

| | (in Millions) State Total | (in Millions) Department Allocation |
|---|---|---|
| **Net OPEB obligation as of June 30, 2014** | $ 1,988.6 | $ 103.6 |
| Annual required contribution | 404.4 | 20.4 |
| Interest on net OPEB obligation | 84.5 | 4.2 |
| Adjustment to annual required contribution | (76.7) | (3.9) |
| **Annual OPEB cost** | 2,400.8 | 124.3 |
| Employer contributions | (226.3) | (11.4) |
| **Net OPEB obligation as of June 30, 2015** | $ 2,174.5 | $ 112.9 |

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

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 06/30/2016 | $ 134.9 | 8 % | $ 123.9 |
| 06/30/2015 | 124.3 | 9 | 112.9 |
| 06/30/2014 | 113.9 | 9 | 103.6 |

### *(e) Funded Status and Funding Progress*

As of June 30, 2016, the plan was 4.2% funded. The actuarial accrued liability for benefits was $7,460.0 million, and the actuarial value of assets was $310.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $7,150.0 million for the State. The covered payroll (annual payroll of active employees covered by the Plan) was $2,114.0 million, and the ratio of the UAAL to the covered payroll was 338.2%. Specific amounts related to the Department cannot be determined.

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

### *(f) Actuarial Methods and Assumptions*

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

In the June 30, 2016 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at fair value. The actuarial assumptions included a 3.75% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State’s own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 4.00%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

In the June 30, 2015 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at fair value. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State’s own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 4.25%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

## DTC OPEB

### *(1) Plan Description*

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

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

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

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

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

**Eligibility**

*Contract Employees:*

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

*Normal Retirement:*

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

**Benefits**

During the Fiscal Year Ended June 30, 2016, 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.

***(2) Funding Policy***

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

***(3) 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 $0.265 per month per $1,000 of coverage for each employee.

***(4) Annual OPEB Cost and Net OPEB Obligation***

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

The following table shows the components of DTC's annual OPEB cost, the amount actually contributed to the plan, and DTC's net OPEB obligation as of and for the Fiscal Year Ended June 30, 2016:

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

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

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

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

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

### *(5) Funded Status and Funding Progress*

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

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

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

#### *(6) Actuarial Methods and Assumptions*

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

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

| | |
|---|---|
| 2016 | 4.7% |
| 2021 | 5.1 |
| 2026 | 5.0 |
| 2051 | 4.8 |

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

## (14) Commitments and Contingencies

### *(a) Construction Commitments*

The Department had contractual commitments of $655,158,054 for construction of various highway projects at June 30, 2016. Current and future appropriations will fund these commitments as work is performed.

### *(b) Litigation*

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

### *(c) Pollution Remediation*

GASB No. 49 provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB No. 49 does not require the Department to search for pollution, it does require the Department to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

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

The Department becomes aware of pollution conditions in the fulfillment of its mission, and site investigation, planning and design, cleanup, and site monitoring are typical remediation activities of the Department. The Department has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. GASB No. 49 requires the Department to calculate pollution remediation liabilities using the expected cash flow technique. Where the Department cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the Department has not identified any of these situations.

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

At June 30, 2016 and 2015, the Department had outstanding pollution remediation liabilities of $3,824,500 and $1,993,000, respectively.

## (15) Risk Management

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

***(a) Workers' Compensation Insurance***

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

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

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

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

***(b) Auto Insurance***

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

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

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

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

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

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

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

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

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

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

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

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

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

## (16) Operating Leases

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were $234,399 and $257,649 for the Fiscal Years Ended June 30, 2016 and 2015, respectively.

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

| | |
|---|---|
| 2017 | $ 125,310 |
| 2018 | 97,800 |
| 2019 | 97,800 |
| 2020 | 97,800 |
| 2021 | 97,800 |
| | $ 516,510 |

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

## (17) Transfers in From and Out to Other Funds

Per the terms of the Trust Agreement, the Trust Fund is responsible for reimbursing the State for the Department's operating, maintenance, and capital expenses financed by the State's general bank account. However, the State's General Assembly and the State's Division of Revenue transferred the following amounts as general operating support from the State's General Fund to the Department at June 30,:

| | 2016 | 2015 |
|---|---|---|
| Amounts transferred to the Trust Fund | | |
| Division of Motor Vehicles | $ 2,870,891 | $ 2,874,726 |
| Division of Revenue, Motor Vehicle Dealer/Lessor License and Document Fees | 542,963 | 514,012 |
| Build America Bond | 604,537 | - |
| E-ZPass Operations | 5,000,000 | - |
| Other | 5,150,000 | - |
| | $ 14,168,391 | $ 3,388,738 |

In addition, the Trust Fund is responsible for maintaining funds appropriated by the General Assembly for DTC, and reimbursing DTC for its operating and capital expenses up to the total amount of the appropriated funds. Total reimbursements for the Fiscal Years Ended June 30, 2016 and 2015 was $95,281,735 and $92,915,587, respectively.

## (18) Service Concession Arrangement for Welcome Center and Service Plaza

At the end of Fiscal Year 2010, construction was completed on the Welcome Center and Service Plaza (the Center) pursuant to an agreement with HMS Host Tollroads, Inc. (HMS), under which HMS financed, designed, and built the Center and continues to maintain and operate the Center for 35 years. The agreement with HMS was entered into in order to improve the comfort of motorists traveling through Delaware and to avoid the issuance of debt. Under the agreement, HMS is responsible for maintaining the Center to current conditions and insuring the Center over the course of the 35-year operations period. The Trust Fund will be entitled to a percentage of all sales from fuel and non-fuel items sold. At the end of the arrangement, operation of the Center will be transferred to the Trust Fund in its enhanced condition. The Department initially reported the Center as a capital asset with a carrying amount of $22,100,000 at June 30, 2016, and a related deferred inflow of resources of $22,100,000, which is being amortized over 35 years. Amortization expense for both Fiscal Years Ended June 30, 2016 and 2015 was $631,428.

## (19) Blended Component Unit - Condensed Financial Information

The Authority is a blended component unit of the Department (see Note 1). The following tables present the condensed financial information of the Authority as of and for the Fiscal Years Ended June 30, 2016 and 2015.

### Condensed Statements of Net Position

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 422,911,751 | $ 264,333,957 |
| Capital assets, net | 1,562,501,613 | 1,518,631,316 |
| Other assets | 111,657,377 | 75,301,653 |
| **Total assets** | 2,097,070,741 | 1,858,266,926 |
| **Deferred outflows of resources** | 42,729,191 | 22,680,827 |
| **Liabilities** | | |
| Current liabilities | 169,780,652 | 153,629,805 |
| Noncurrent liabilities | 1,112,529,085 | 935,268,630 |
| **Total liabilities** | 1,282,309,737 | 1,088,898,435 |
| **Deferred inflows of resources** | 19,318,839 | 19,649,224 |
| **Net position** | | |
| Net investment in capital assets | 665,682,329 | 643,218,938 |
| Restricted | 196,417,896 | 152,967,183 |
| Unrestricted | (23,928,869) | (23,786,027) |
| **Total net position** | $ 838,171,356 | $ 772,400,094 |

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### Condensed Statements of Revenues, Expenses, and Changes in Net Position

| | 2016 | 2015 |
|---|---|---|
| **Operating revenues** | | |
| Pledged | $ 457,168,886 | $ 411,005,078 |
| Other | 89,231,634 | 86,611,456 |
| **Total operating revenues** | 546,400,520 | 497,616,534 |
| **Operating expenses** | 370,368,594 | 313,554,363 |
| **Operating income** | 176,031,926 | 184,062,171 |
| **Nonoperating revenues (expenses)** | | |
| Income from investments - pledged | 5,035,681 | 1,844,953 |
| Federal grant revenue | 7,716,384 | 7,751,972 |
| Interest expense | (26,132,947) | (23,482,198) |
| Other | (1,299,647) | (70,900) |
| **Deficiency of nonoperating revenues over nonoperating expenses** | (14,680,529) | (13,956,173) |
| **Income before transfers** | 161,351,397 | 170,105,998 |
| **Net transfers** | (95,580,135) | (70,665,660) |
| **Change in net position** | 65,771,262 | 99,440,338 |
| **Net position - beginning of year, as previously stated** | 772,400,094 | 674,709,373 |
| **Prior period adjustment - implementation of GASB Nos. 68 and 71** | - | (1,749,617) |
| **Net position - beginning of year, as restated** | 772,400,094 | 672,959,756 |
| **Net position - end of year** | $ 838,171,356 | $ 772,400,094 |

### Condensed Statements of Cash Flows

| | 2016 | 2015 |
|---|---|---|
| **Net cash provided by (used in)** | | |
| Operating activities | $ 224,131,361 | $ 221,977,045 |
| Noncapital financing activities | (99,121,782) | (95,757,620) |
| Capital and related financing activities | 66,428,822 | (129,867,420) |
| Investing activities | (130,780,687) | (1,962,876) |
| **Net increase (decrease) in cash and cash equivalents** | 60,657,714 | (5,610,871) |
| **Cash and cash equivalents - beginning of year** | 67,078,806 | 72,689,677 |
| **Cash and cash equivalents - end of year** | $ 127,736,520 | $ 67,078,806 |

During the Fiscal Year Ended June 30, 2016, the Department determined that certain transactions between the Department and the State should be reflected as amounts due to or from the State General Fund. As such, Fiscal Year 2015 amounts have been reclassified from pooled cash and investments to due to/from the State General Fund to conform to current year presentation. These reclassifications had no impact on the Department's overall net position or change in net position as of and for the Fiscal Year Ended June 30, 2015.

## (20) Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to financial statements. All events and transactions have been evaluated through December 13, 2016, which is the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

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

As allowed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense.

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

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

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the Fiscal Year Ended June 30, 2016 is not available.

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**Structural Rating Numbers and Percentages for Bridges**

| | BCR Condition Rating | 2016** Number | 2016** Percentage | 2015 Number | 2015 Percentage | 2014 Number | 2014 Percentage |
|---|---|---|---|---|---|---|---|
| | | Calendar Year Ended December 31,: | | | | | |
| Good | 6 - 9 | 606 | 71.9 | 1,211 | 74.5 | 1,198 | 75.3 |
| Fair | 5 | 195 | 23.2 | 304 | 18.7 | 307 | 19.3 |
| Poor | 0 - 4 | 41 | 4.9 | 111 | 6.8 | 87 | 5.4 |
| | Totals | 842 | 100.0 | 1,626 | 100.0 | 1,592 | 100.0 |

**Deck Rating Numbers and Percentages for Bridges**

| | OPC Condition Rating | 2016 Square Feet | 2016 Percentage | 2015 Square Feet | 2015 Percentage | 2014 Square Feet | 2014 Percentage |
|---|---|---|---|---|---|---|---|
| | | Calendar Year Ended December 31,: | | | | | |
| Good | 6 - 9 | 5,697,809 | 70.9 | 5,979,029 | 74.3 | 5,886,694 | 74.9 |
| Fair | 5 | 1,942,870 | 24.1 | 1,696,198 | 21.1 | 1,650,327 | 21.0 |
| Poor | 0 - 4 | 399,080 | 5.0 | 374,113 | 4.6 | 321,851 | 4.1 |
| | Totals | 8,039,759 | 100.0 | 8,049,340 | 100.0 | 7,858,872 | 100.0 |

**Center-Line Mile Numbers and Percentages for Road Pavement**

| | OPC Condition Rating | 2015 Center-Line Miles | 2015 Percentage | 2013 Center-Line Miles | 2013 Percentage | 2011 Center-Line Miles | 2011 Percentage |
|---|---|---|---|---|---|---|---|
| | | Calendar Year Ended December 31,: | | | | | |
| Good | 3.0 - 5.0 | 3,960 | 88.9 | 4,032 | 90.6 | 3,796 | 86.7 |
| Fair | 2.5 - 3.0 | 310 | 7.0 | 356 | 8.0 | 400 | 9.1 |
| Poor | Below 2.5 | 118 | 2.7 | 60 | 1.4 | 182 | 4.2 |
| Unrated | | 64 | 1.4 | - | - | - | - |
| | Totals | 4,452 | 100.0 | 4,448 | 100.0 | 4,378 | 100.0 |

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | Fiscal Year Ended June 30,: | | | | |
| Estimated | $ 242,299 | $ 241,900 | $ 198,873 | $ 185,399 | $ 243,600 |
| Actual | 281,554 | 291,630 | 234,800 | 233,810 | 285,923 |

* The estimated expenditures represent annual Bond Bill authorization. The actual expenditures represent the current year spending, which includes cumulative authorization.

** The Department has updated its reporting of bridges to coincide with the FHWA's definition of bridges, which has specific length requirements. Beginning in 2016, bridges that do not meet the FHWA's definition are no longer reported in the above table.

## Required Supplementary Information - DelDOT/Trust Fund Pension

### Schedule of Proportionate Share of Net Pension Liability

| Proportionate Share of Net Pension Liability | June 30, 2015 | June 30, 2014 |
|---|---|---|
| DelDOT/Trust Fund proportion of the net pension liability | 3.6502 % | 3.8332 % |
| DelDOT/Trust Fund proportion of the net pension liability - dollar value | $ 24,283,925 | $ 14,114,288 |
| DelDOT/Trust Fund covered employee payroll | $ 72,908,127 | $ 73,603,519 |
| DelDOT/Trust Fund proportionate share of the net pension liability as a percentage of covered employee payroll | 33.31 % | 19.18 % |
| **Contributions** | | |
| Contractually required contribution | $ 6,508,133 | $ 6,702,782 |
| Contributions in relation to the contractually required contribution | 6,508,133 | 6,702,782 |
| Contribution deficiency | $ - | $ - |
| DelDOT/Trust Fund covered employee payroll | $ 72,908,127 | $ 73,603,519 |
| Contribution as a percentage of covered employee payroll | 8.93 % | 9.11 % |

*In accordance with GASB No. 68, this schedule has been prepared prospectively as the above information for the preceding years in not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.*

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## Required Supplementary Information - DTC Pensions

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

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

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

**Notes to Schedule**

| | |
|---|---|
| Benefit changes: | None |
| Changes of assumptions: | None |

## Required Supplementary Information - DTC Pensions

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

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

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

**Notes to Schedule**

| | |
|---|---|
| Benefit changes: | None |
| Changes of assumptions: | None |

# State of Delaware
# Department of Transportation
## Required Supplementary Information
## June 30, 2016 and 2015

**Schedule of Contributions**

Last 10 Fiscal Years
*(Dollar amounts in thousands)*

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

**Notes to Schedule**

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

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

## Required Supplementary Information - DTC OPEB Trust

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

**Schedule of Funding Status and 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 % of Covered Payroll ((a-b)/c) |
|---|---|---|---|---|---|---|
| 07/01/2015 | $ 2,342,000 | $ 113,898,000 | $ (111,556,000) | 2.06 % | $ 44,602,886 | (250.11)% |
| 07/01/2014 | 2,189,000 | 104,434,000 | (102,245,000) | 2.10 | 42,716,806 | (239.36) |
| 07/01/2013 | 1,878,000 | 135,237,000 | (133,359,000) | 1.39 | 38,546,221 | (345.97) |

# SUPPLEMENTARY INFORMATION

**Delaware Transportation Authority**
**Transportation Trust Fund**
Statement of Net Position in Accordance with Trust Agreement
June 30, 2016
(with comparative totals for June 30, 2015)

| | Operations | Trust Holdings | Debt Reserve | (Memorandum Only) 2016 | (Memorandum Only) 2015 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | | | | | |
| Unrestricted | $ 62,191,191 | $ 10,058,789 | $ - | $ 72,249,980 | $ 26,447,592 |
| Restricted | 982 | 17,993,863 | 8,317 | 18,003,162 | 3,655,737 |
| Pooled cash and investments | 1,879,059 | - | - | 1,879,059 | 2,259,980 |
| Investments - at fair value | | | | | |
| Unrestricted | 14,454,891 | 6,570,724 | - | 21,025,615 | 55,413,618 |
| Restricted | 125,509 | 237,143,964 | 7,485,035 | 244,754,508 | 110,039,426 |
| Accounts receivable | | | | | |
| Trade | 10,821,644 | - | - | 10,821,644 | 8,891,270 |
| Federal grants | 320,785 | - | - | 320,785 | 276,291 |
| Interest | 837,426 | - | - | 837,426 | 398,661 |
| Due from State General Fund | 12,000,000 | - | - | 12,000,000 | 17,150,000 |
| **Total current assets** | 102,631,487 | 271,767,340 | 7,493,352 | 381,892,179 | 224,532,575 |
| **Noncurrent assets** | | | | | |
| Capital assets, not depreciable | | | | | |
| Land | - | 157,111,012 | - | 157,111,012 | 152,306,437 |
| Infrastructure | - | 1,258,597,309 | - | 1,258,597,309 | 1,216,991,300 |
| Service concession buildings and improvements | - | 22,100,000 | - | 22,100,000 | 22,100,000 |
| Capital assets, depreciable | | | | | |
| Buildings and improvements | - | 8,036,932 | - | 8,036,932 | 8,072,030 |
| Total capital assets | - | 1,445,845,253 | - | 1,445,845,253 | 1,399,469,767 |
| Less: accumulated depreciation | - | 4,370,544 | - | 4,370,544 | 4,217,142 |
| Capital assets, net | - | 1,441,474,709 | - | 1,441,474,709 | 1,395,252,625 |
| Investments - at fair value, net of current portion | | | | | |
| Unrestricted | 453,008 | 1,087,490 | - | 1,540,498 | 4,563,474 |
| Restricted | 241,379 | 34,819,143 | 75,056,357 | 110,116,879 | 70,484,736 |
| **Total noncurrent assets** | 694,387 | 1,477,381,342 | 75,056,357 | 1,553,132,086 | 1,470,300,835 |
| **Total assets** | 103,325,874 | 1,749,148,682 | 82,549,709 | 1,935,024,265 | 1,694,833,410 |
| **Deferred outflows of resources** | - | 36,409,367 | - | 36,409,367 | 20,448,278 |

(Continued)

**Delaware Transportation Authority**
**Transportation Trust Fund**
Statement of Net Position in Accordance with Trust Agreement
June 30, 2016
(with comparative totals for June 30, 2015)

| | Operations | Trust Holdings | Debt Reserve | (Memorandum Only) 2016 | 2015 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Accounts payable and other accrued expenses | $ 32,774,599 | $ - | $ - | $ 32,774,599 | $ 15,608,211 |
| Escrow deposits | - | 1,879,059 | - | 1,879,059 | 2,259,980 |
| Customer toll deposits | 15,219,424 | - | - | 15,219,424 | 14,487,762 |
| Interest payable | - | 17,637,903 | - | 17,637,903 | 20,737,791 |
| Revenue bonds payable | - | 70,595,000 | - | 70,595,000 | 72,580,000 |
| Bond issue premium - net of accumulated amortization | - | 16,166,236 | - | 16,166,236 | 11,902,313 |
| **Total current liabilities** | 47,994,023 | 106,278,198 | - | 154,272,221 | 137,576,057 |
| **Noncurrent liabilities** | | | | | |
| Revenue bonds payable - net of current portion | - | 915,700,000 | - | 915,700,000 | 788,820,000 |
| Bond issue premium - net of accumulated amortization and current portion | - | 70,904,391 | - | 70,904,391 | 33,576,224 |
| **Total noncurrent liabilities** | - | 986,604,391 | - | 986,604,391 | 822,396,224 |
| **Total liabilities** | 47,994,023 | 1,092,882,589 | - | 1,140,876,612 | 959,972,281 |
| **Deferred inflows of resources** | - | 18,311,429 | - | 18,311,429 | 18,942,857 |
| **Net position** | | | | | |
| Net investment in capital assets | - | 544,655,425 | - | 544,655,425 | 519,840,247 |
| Restricted | 457,559 | 113,410,628 | 82,549,709 | 196,417,896 | 152,713,740 |
| Unrestricted | 54,874,292 | 16,297,978 | - | 71,172,270 | 63,812,563 |
| **Total net position** | $ 55,331,851 | $ 674,364,031 | $ 82,549,709 | $ 812,245,591 | $ 736,366,550 |

**Delaware Transportation Authority**
**Transportation Trust Fund**
Statement of Revenues, Expenses, and Changes in Net Position in Accordance with Trust Agreement
Fiscal Year Ended June 30, 2016
(with comparative totals for the Fiscal Year Ended June 30, 2015)

| | Operations | Trust Holdings | Debt Reserve | (Memorandum Only) 2016 | 2015 |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Pledged revenue | | | | | |
| Turnpike revenue | $ 132,517,327 | $ - | $ - | $ 132,517,327 | $ 120,363,461 |
| Motor fuel tax revenue | 124,573,140 | - | - | 124,573,140 | 116,968,447 |
| Motor vehicle document fee revenue | 107,765,732 | - | - | 107,765,732 | 94,037,087 |
| Motor vehicle registration fee revenue | 52,339,415 | - | - | 52,339,415 | 51,184,304 |
| Other motor vehicle revenue | 38,025,381 | - | - | 38,025,381 | 25,757,326 |
| International Fuel Tax Agreement revenue | 1,947,891 | - | - | 1,947,891 | 2,694,453 |
| Total pledged revenue | 457,168,886 | - | - | 457,168,886 | 411,005,078 |
| Toll revenue - Delaware SR-1 | 59,813,890 | - | - | 59,813,890 | 55,767,180 |
| Miscellaneous | 8,590,907 | - | - | 8,590,907 | 9,571,417 |
| **Total operating revenues** | 525,573,683 | - | - | 525,573,683 | 476,343,675 |
| **Operating expenses** | | | | | |
| Road maintenance, preservation, and repairs | 809,836 | 83,282,220 | - | 84,092,056 | 45,864,274 |
| Professional fees | 47,891,338 | 74,780,028 | - | 122,671,366 | 99,182,481 |
| Materials, supplies, and other | 21,396,330 | 2,701,508 | - | 24,097,838 | 26,165,562 |
| Depreciation | - | 188,500 | - | 188,500 | 188,500 |
| **Total operating expenses** | 70,097,504 | 160,952,256 | - | 231,049,760 | 171,400,817 |
| **Operating income (loss)** | 455,476,179 | (160,952,256) | - | 294,523,923 | 304,942,858 |
| **Nonoperating revenues (expenses)** | | | | | |
| Income from investments - pledged | 108,643 | 988,030 | 3,939,008 | 5,035,681 | 1,844,953 |
| Bad debt recovery | - | 960,395 | - | 960,395 | 923,348 |
| Federal grant revenue | - | 44,494 | - | 44,494 | 276,291 |
| Interest expense | - | (26,132,947) | - | (26,132,947) | (23,482,198) |
| Service concession arrangement | - | 631,428 | - | 631,428 | 631,428 |
| **Excess (deficiency) of nonoperating revenues over nonoperating expenses** | 108,643 | (23,508,600) | 3,939,008 | (19,460,949) | (19,806,178) |
| **Income (loss) before transfers** | 455,584,822 | (184,460,856) | 3,939,008 | 275,062,974 | 285,136,680 |

(Continued)

**Delaware Transportation Authority**
**Transportation Trust Fund**
Statement of Revenues, Expenses, and Changes in Net Position in Accordance with Trust Agreement
Fiscal Year Ended June 30, 2016
(with comparative totals for the Fiscal Year Ended June 30, 2015)

| | | | | (Memorandum Only) | |
|---|---|---|---|---|---|
| | **Operations** | **Trust Holdings** | **Debt Reserve** | **2016** | **2015** |
| Net transfers per agreement | $ (263,233,142) | $ 249,034,363 | $ 14,198,779 | $ - | $ - |
| Transfers to other governmental agencies | (5,125,703) | - | - | (5,125,703) | (5,484,944) |
| Transfers to State General Fund | (5,000,000) | - | - | (5,000,000) | (5,000,000) |
| Transfers from State General Fund | 5,000,000 | 9,168,391 | - | 14,168,391 | 3,388,738 |
| Transfers to DTC | (85,420,600) | - | - | (85,420,600) | (85,583,707) |
| Transfers to DelDOT | (117,806,021) | - | - | (117,806,021) | (84,693,299) |
| **Change in fund net position** | (16,000,644) | 73,741,898 | 18,137,787 | 75,879,041 | 107,763,468 |
| **Fund net position - beginning of year** | 71,332,495 | 600,622,133 | 64,411,922 | 736,366,550 | 628,603,082 |
| **Fund net position - end of year** | $ 55,331,851 | $ 674,364,031 | $ 82,549,709 | $ 812,245,591 | $ 736,366,550 |

# Delaware Transportation Authority
## Transportation Trust Fund
Schedule of Revenue Bonds Outstanding
June 30, 2016

| Principal | 2006 Series | 2007 A Series | 2008 A Series | 2008 B Series | 2009 A Series | 2009 B Series | 2010 B Series | 2012 Series | 2014 Series | 2016 Series | Total Senior Bond Series | GARVEE 2010 Series | US 301 Project 2015 Series | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY17 | $ 6,160,000 | $ 4,975,000 | $ 15,355,000 | $ 4,730,000 | $ 4,485,000 | $ 8,530,000 | $ - | $ 5,395,000 | $ 13,685,000 | $ - | $ 63,315,000 | $ 7,280,000 | $ - | $ 70,595,000 |
| FY18 | - | 5,220,000 | 2,110,000 | 4,970,000 | 4,710,000 | 9,975,000 | - | 25,600,000 | 9,670,000 | - | 62,255,000 | 7,625,000 | - | 69,880,000 |
| FY19 | - | 5,455,000 | 2,215,000 | 5,215,000 | 4,945,000 | 4,830,000 | - | 38,800,000 | 4,500,000 | - | 65,960,000 | 7,985,000 | - | 73,945,000 |
| FY20 | - | 5,730,000 | - | 5,480,000 | 5,195,000 | 5,485,000 | 5,070,000 | 21,555,000 | 14,965,000 | 2,075,000 | 65,555,000 | 8,375,000 | - | 73,930,000 |
| FY21 | - | 22,130,000 | - | - | - | - | 5,200,000 | 12,715,000 | 10,650,000 | 12,825,000 | 63,520,000 | 8,785,000 | 3,220,000 | 75,525,000 |
| FY22 | - | 6,520,000 | - | - | - | - | 5,340,000 | 23,100,000 | 12,330,000 | 13,420,000 | 60,710,000 | 9,210,000 | 5,225,000 | 75,145,000 |
| FY23 | - | - | - | - | - | - | 5,495,000 | 30,280,000 | 8,060,000 | 14,085,000 | 57,920,000 | 9,625,000 | 5,675,000 | 73,220,000 |
| FY24 | - | - | - | - | - | - | 5,655,000 | 24,800,000 | 8,465,000 | 14,745,000 | 53,665,000 | 10,145,000 | - | 63,810,000 |
| FY25 | - | - | - | - | - | - | 5,830,000 | 19,350,000 | 195,000 | 22,725,000 | 48,100,000 | 10,555,000 | - | 58,655,000 |
| FY26 | - | - | - | - | - | - | 6,015,000 | - | 12,045,000 | 23,770,000 | 41,830,000 | - | - | 41,830,000 |
| FY27 | - | - | - | - | - | - | 6,215,000 | - | - | 24,870,000 | 31,085,000 | - | - | 31,085,000 |
| FY28 | - | - | - | - | - | - | 6,450,000 | - | - | 17,930,000 | 24,380,000 | - | - | 24,380,000 |
| FY29 | - | - | - | - | - | - | 6,695,000 | - | - | 18,815,000 | 25,510,000 | - | - | 25,510,000 |
| FY30 | - | - | - | - | - | - | 6,945,000 | - | - | 16,215,000 | 23,160,000 | - | - | 23,160,000 |
| FY31 | - | - | - | - | - | - | 7,210,000 | - | - | - | 7,210,000 | - | - | 7,210,000 |
| FY32 | - | - | - | - | - | - | - | - | - | - | - | - | 1,285,000 | 1,285,000 |
| FY33 | - | - | - | - | - | - | - | - | - | - | - | - | 1,450,000 | 1,450,000 |
| FY34 | - | - | - | - | - | - | - | - | - | - | - | - | 2,450,000 | 2,450,000 |
| FY35 | - | - | - | - | - | - | - | - | - | - | - | - | 3,200,000 | 3,200,000 |
| FY36 | - | - | - | - | - | - | - | - | - | - | - | - | 3,500,000 | 3,500,000 |
| FY37 | - | - | - | - | - | - | - | - | - | - | - | - | 4,000,000 | 4,000,000 |
| FY38 | - | - | - | - | - | - | - | - | - | - | - | - | 2,250,000 | 2,250,000 |
| FY39 | - | - | - | - | - | - | - | - | - | - | - | - | 3,395,000 | 3,395,000 |
| FY40 | - | - | - | - | - | - | - | - | - | - | - | - | 3,660,000 | 3,660,000 |
| FY41 | - | - | - | - | - | - | - | - | - | - | - | - | 4,835,000 | 4,835,000 |
| FY42 | - | - | - | - | - | - | - | - | - | - | - | - | 6,090,000 | 6,090,000 |
| FY43 | - | - | - | - | - | - | - | - | - | - | - | - | 6,420,000 | 6,420,000 |
| FY44 | - | - | - | - | - | - | - | - | - | - | - | - | 6,825,000 | 6,825,000 |
| FY45 | - | - | - | - | - | - | - | - | - | - | - | - | 7,280,000 | 7,280,000 |
| FY46 | - | - | - | - | - | - | - | - | - | - | - | - | 8,770,000 | 8,770,000 |
| FY47 | - | - | - | - | - | - | - | - | - | - | - | - | 10,400,000 | 10,400,000 |
| FY48 | - | - | - | - | - | - | - | - | - | - | - | - | 11,095,000 | 11,095,000 |
| FY49 | - | - | - | - | - | - | - | - | - | - | - | - | 11,810,000 | 11,810,000 |
| FY50 | - | - | - | - | - | - | - | - | - | - | - | - | 12,515,000 | 12,515,000 |
| FY51 | - | - | - | - | - | - | - | - | - | - | - | - | 14,490,000 | 14,490,000 |
| FY52 | - | - | - | - | - | - | - | - | - | - | - | - | 16,595,000 | 16,595,000 |
| FY53 | - | - | - | - | - | - | - | - | - | - | - | - | 17,615,000 | 17,615,000 |
| FY54 | - | - | - | - | - | - | - | - | - | - | - | - | 18,670,000 | 18,670,000 |
| FY55 | - | - | - | - | - | - | - | - | - | - | - | - | 19,815,000 | 19,815,000 |
| | $ 6,160,000 | $ 50,030,000 | $ 19,680,000 | $ 20,395,000 | $ 19,335,000 | $ 28,820,000 | $ 72,120,000 | $ 201,595,000 | $ 94,565,000 | $ 181,475,000 | $ 694,175,000 | $ 79,585,000 | $ 212,535,000 | $ 986,295,000 |

**Delaware Transportation Authority**
**Transportation Trust Fund**
Schedule of Revenue Bond Coverage
June 30, 2016

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

(Dollar amounts in thousands)

| | | Debt Service Requirements | | | |
|---|---|---|---|---|---|
| **Fiscal Year** | **Gross Pledged Revenue** | **Principal** | **Interest** | **Total** | **Coverage*** |
| 2006 | $ 337,350 | $ 58,445 | $ 40,573 | $ 99,018 | 3.41 |
| 2007 | 346,954 | 61,370 | 45,534 | 106,904 | 3.25 |
| 2008 | 381,590 | 67,640 | 46,210 | 113,850 | 3.35 |
| 2009 | 367,399 | 73,510 | 43,619 | 117,129 | 3.14 |
| 2010 | 363,948 | 74,380 | 50,885 | 125,265 | 2.91 |
| 2011 | 376,186 | 71,760 | 52,585 | 124,345 | 3.03 |
| 2012 | 378,960 | 76,320 | 56,411 | 132,731 | 2.86 |
| 2013 | 387,918 | 83,230 | 48,097 | 131,327 | 2.95 |
| 2014 | 401,923 | 75,205 | 47,162 | 122,367 | 3.28 |
| 2015 | 412,850 | 77,655 | 41,467 | 119,122 | 3.47 |
| 2016 | 462,205 | 72,580 | 44,450 | 117,030 | 3.95 |

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

Santora CPA Group
Right, By Your Side

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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***

State of Delaware Department of Transportation
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the State of Delaware Department of Transportation (the Department), an enterprise fund of the State of Delaware as of and for the Fiscal Year Ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 13, 2016.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as Findings 2016-1, 2016-2, and 2016-4 in the accompanying Schedule of Findings to be material weaknesses.



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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as Findings 2016-3 and 2016-5 in the accompanying Schedule of Findings to be significant deficiencies.

**Compliance and Other Matters**

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

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

**The Department's Responses to Findings**

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

**Purpose of this Report**

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

Santora CPA Group

December 13, 2016
Newark, Delaware

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

***Background***

Throughout the year, the Department, excluding DTC, operates and records transactions on the cash and budget basis of accounting using First State Financials (FSF), the State's accounting system. The cash basis of accounting differs significantly from the accrual basis of accounting, which is the Department's basis for reporting information included in the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

Since FSF is not used throughout the year to capture transactions on the accrual basis of accounting, the year-end compilation of the Department's financial statements is complex and heavily reliant on manual adjustments to properly record accruals and other non-routine transactions. State agencies on FSF are required to prepare GAAP packages to make various types of adjustments to correct the non-GAAP basis of accounting throughout the year. The Division of Accounting (DOA) provides training and instructions to State personnel on the GAAP package preparation and sets timelines for GAAP package submission to the DOA. In addition, there are some State agencies that use systems outside of FSF to gather and track required information; this adds to the complexity of the year-end GAAP package reporting and reconciliation process.

***Condition***

Department management has overall responsibility for the preparation and fair presentation of their financial statements in accordance with GAAP. The Department utilizes resources from another State agency to compile the Department's financial statements in accordance with GAAP.

During our audit, we identified the following deficiencies in internal control over financial reporting related to the Department's financial statements:

- The documentation provided with the compiled financial statements did not demonstrate a complete reconciliation of revenue and expenses, including a step to review all entries made and verify those entries to supporting source documents prior to submission for audit. This type of reconciliation, along with an effective management review process, is necessary to ensure that the financial statements are complete and accurate and reflect all activity of the Department for the fiscal year.

- Several amounts reported in the statement of cash flows were adjusted to reconcile to supporting audit documentation and workpapers, as the result of the audit adjustments detailed in this finding, and as a result of the incorrect treatment of items related to the current year bond issuances.

- The Transportation Trust Fund's escrow funds held in the State Investment Pool of $1,879,059 that should have been reported as pooled cash and investments were recorded as unrestricted cash and cash equivalents in the compiled financial statements.

- The amount Due to State General Fund was understated by a net of $16,039 as the result of an understatement of $7,128,550 of escrow funds that should have been classified as pooled cash and investments, and an overstatement of $7,112,511 due to items omitted from the rollforward of pooled cash and investments. This also had the effect of understating miscellaneous revenues by $7,112,511.

- Investments on the face of the compiled financial statements were reported at cost, rather than fair market value as required by GAAP. This led to an understatement of investments and investment income of $2,304,800.

- Investments on the face of the compiled financial statements overstated unrestricted investments by $176,428,177 and understated restricted investments by the same amount.

- Infrastructure was understated by $4,941,768 on the compiled financial statements, as the result of the impact of interest for the 2015 US301 Project Revenue Bonds. This amount should have been recorded and capitalized with infrastructure due to its classification as construction-period interest. This error also resulted in an overstatement of interest expense by $5,543,403 and an overstatement of interest income of $601,635 in the compiled financial statements.

- Deferred outflows of resources were understated by $7,377,299 in the compiled financial statements. The variance was caused by the improper recording of the $7,870,000 principal payment on the 2005 Senior Revenue Bond and an adjustment of $111,074 to the bond premiums as a result of refunded bonds, as well as an adjustment of $(614,775) for additional amortization on these deferred outflows. This error also resulted in an understatement of interest expense by $1,640,377 and materials, supplies, and other by $5,736,922 in the compiled financial statements.

- A total of $36,664,241 in infrastructure projects was misclassified between Department funds as a result of inaccurate or incomplete information included in the Department's GAAP package. There is no financial impact at the Department level.

- Accounts payable related to E-ZPass was overstated by $4,224,821 and related Turnpike Revenue – pledged was understated by the same amount as a result of inaccurate or incomplete information included in the Department's GAAP package.

- Miscellaneous operating revenues of $925,533 were misclassified between Department funds. There is no financial impact at the Department level.

- Professional fees reported in the compiled financial statements did not include $5,000,000 of expenses that were paid by the State’s General Fund during Fiscal Year 2016, as appropriated under House Bill 230. This also led to an understatement of the transfers from the State General Fund line item by $5,000,000.

- Transfers to other governmental agencies were overstated by $2,614,324 in the compiled financial statements.

- Total transfers to the State General Fund were understated by $753,975 in the compiled financial statements, as a result of a miscoding of a Municipal Street Aid transfer in March 2016.

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

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

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

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

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

***Criteria***

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

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

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

***Cause***

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

All staff working on various aspects of the GAAP reporting process should have sufficient technical expertise to perform the work accurately and timely.

***Effect***

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

***Recommendation***

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

The compilation package provided for audit should reflect final trial balance amounts with all client adjustments included, other sufficient workpapers to provide a complete audit trail from the trial balance to the amounts reported and disclosed in the financial statements, and should include a complete reconciliation of revenue and expenses. This package and reconciliation should be subject to a management review and approval process before it is submitted for audit.

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

***View of Responsible Officials***

The Department formed GAAP and financial statement review teams who reviewed each item. While the members of the teams had specific expertise, they lacked extensive knowledge in all areas. The teams detected some errors, but others were not found. This function has previously been performed by the Controller, a position that was vacant during the entire audit.

As recommended, Finance intends to fill the Controller vacancy in the first quarter of calendar year 2017. The candidate will also have or gain the knowledge of departmental processes and procedures, accounting policies and procedures, and also an in-depth understanding of the various reporting tools utilized by the Department. The selected candidate will be responsible for implementing a disclosure checklist and ensuring compliance. Duties will include GAAP review, review of financial statements for completeness and accuracy, and full evaluation of the reasonableness of each financial statement line item, with special attention to non-routine transactions.

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

**Finding 2016-2: Division of Motor Vehicle (DMV) Revenues (Material Weakness)**

***Background***

One of the sources of revenue for the Department is the DMV revenue, which is initiated when a customer enters one of the DMV locations to register a vehicle or pay a fee. The customer completes the appropriate forms, and the cashier at the DMV location enters the customer information into the Motor Vehicle and License System (MVALS), which calculates the appropriate fee the customer is to pay. On a daily basis for each location, a Daily Cash Report is created to reconcile the daily total for cash, credit cards, and checks for each cashier. Any discrepancies greater than $5 are investigated. The completed Daily Cash Reports are provided to the Accounting Specialist who reconciles the Daily Cash Reports to the MVALS system report for each location. The Accounting Specialist ensures that any shortages/ overages greater than $5 are reasonable and explained. A second Accounting Specialist then reconciles the MVALS totals to the related bank statement.

***Condition***

In testing a sample of 11 DMV daily revenue reconciliations, we verified that each daily reconciliation was properly reviewed and approved; this includes an audit by the Accounting Specialist that compares the lane work to what was recorded in the MVALS for accuracy. In addition, for each daily reconciliation tested, the daily revenue was properly included in the total deposit submitted for the day, and the daily deposit properly flowed through to the month-end bank statement.

We did not identify control or substantive testing exceptions in the sample of 11 daily reconciliations tested. However, in reviewing the fiscal year DMV revenue reconciliation summary, we identified $3.5 million in "MVALS Adjustments". These amounts represent unreconciled variances between the MVALS system and bank statements. A breakout of the variances by month is detailed below:

| Month | MVALS Adjustments |
|---|---|
| July 2015 | $ 1,050,148 |
| August 2015 | (174,720) |
| September 2015 | (1,339,502) |
| October 2015 | (443,320) |
| November 2015 | (448,020) |
| December 2015 | (528,776) |
| January 2016 | (750,150) |
| February 2016 | (181,146) |
| March 2016 | (1,047,591) |
| April 2016 | 349,933 |
| May 2016 | 243,995 |
| June 2016 | (187,470) |
| Total | $ (3,456,619) |

In addition, we noted the following regarding the MVALS system:

- It is not possible to run consistent month-end reports, as the MVALS users are able to make changes after the fact (the month-end period in the system is never officially closed out). As a result, running the same month-end report on different days could generate different report results.

- There are no system controls to ensure that the correct transaction is processed in the MVALS. For example, if the cashier incorrectly codes a transaction but enters the correct transaction amount, the cashier may process the transaction without correcting the coding (i.e., cashier processes one type of service but codes it to another service with the same cost). As a result, it is possible for a cashier to manipulate the transaction that is being processed. Because of this system limitation, management's review of system reports from the MVALS may not catch errors in data entry/coding in the system.

***Criteria***

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

***Cause***

There are system limitations in the reporting functionality of the MVALS. As a result, management cannot pinpoint the cause of the "MVALS Adjustments" noted above.

***Effect***

Without being able to effectively explain all reconciling items included in DMV revenue reconciliations, misstatements to the financial statements could go undetected.

***Recommendation***

We recommend that the Department continue to work with their technology group to enhance the current MVALS or to consider updated software to use for recording DMV revenues that would address the reporting issues noted above. We further recommend that the Department ensure all reconciliations of cash and credit card transactions are performed timely, including explanations for all variances and the "MVALS Adjustments", as required by the Department's internal policies and procedures.

***View of Responsible Officials***

MVALS SYSTEM ENHANCEMENT (REPORTING) - To address the system limitations in the reporting functionality of MVALS, DMV management has diligently worked with the Department's technology group over the last year. We have identified specific DMV reporting needs aimed at improving the MVALS revenue reports. The technology group is in the process of obtaining the necessary programming resources to complete this effort. This remains a top DMV IT initiative, and an estimated time of completion is currently being worked on. In addition, DMV financial services will be more proactively following up on these system enhancements with the technology group now that other competing IT projects are coming to a close.

MVALS SYSTEM ENHANCEMENT (TRANSACTION CODING) - To address the system control issue noted in this finding, DMV financial services will investigate with the Department's technology group the feasibility of implementing a system control over transaction codes (does dollar amount paid equal transaction code schedule for x service) at the point of the transaction. This system enhancement will be added to our DMV IT initiatives for the MVALS system.

FINANCIAL SERVICES MONTHLY MVALS/BANK STATEMENT RECONCILEMENT - DMV financial services recognizes the importance of data validity, transparency, and quality account reconcilement practices. We have worked to evolve and mature our financial functions, including our various types of account reconcilements. We are pleased that the audit team recognizes the improvements made to date with our reconciliation processes and practices. We will implement additional management oversight over the timeliness of reconciliation, which will address the timeliness of preparing the reconcilement, the timeframe for review, and the timeliness of reconciling items that must be resolved. We will further enhance our monthly MVALS to the bank statement to include more detailed explanations for any reconciling items (adjustments and variances) and any actions taken to resolve. In addition, we will attach any relevant support to the reconcilement package for a complete audit trail. For any unknown MVALS adjustments that cannot be resolved until a system enhancement is implemented, we will notate such on the reconcilement.

**Finding 2016-3: Notice of Personnel Action (NPA) Forms (Significant Deficiency)**

***Background***

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

***Condition***

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

***Criteria***

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

***Cause***

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

***Effect***

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

***Recommendation***

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

***View of Responsible Officials***

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

**Finding 2016-4: Management Review Process (Material Weakness)**

***Background***

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

***Condition***

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

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

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

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

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

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

***Criteria***

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

***Cause***

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

***Effect***

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

***Recommendation***

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

***View of Responsible Officials***

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

**Finding 2016-5: Parts Inventory Valuation (Significant Deficiency)**

***Background***

DTC values inventory based on the Perpetual Weighted Average Cost (PWAC) method. Under this method, inventory values should only change based on the receipt of new items with disposals of inventory valued at the price per unit at time of disposal. Unit price and quantities are tracked within the PeopleSoft Inventory module. The system automatically updates the PWAC value upon receipts. In addition to making adjustments to reconcile between part quantity recorded within the PeopleSoft system, adjustments must be made based on evaluation of the value of inventory items. Accounting principles generally accepted in the United States of America require that inventory be valued at the lower of cost or market value. DTC must evaluate its inventory on a regular basis to account for potential obsolescence.

***Condition***

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

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

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

***Criteria***

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

***Cause***

Lack of management review around valuation of inventory.

***Effect***

Inventory balances may be misstated.

***Recommendation***

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

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

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

***View of Responsible Officials***

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