STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Financial Statements
June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

State of Delaware
Department of Transportation

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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, 2017 and 2016, 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, 2017 and 2016, 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

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, 2017 and 2016, 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 the Governmental Accounting Standards Board, 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.

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 November 20, 2017, 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

November 20, 2017
Newark, Delaware

State of Delaware
Department of Transportation
Management's Discussion and Analysis
June 30, 2017 and 2016

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, 2017 and 2016.

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

- Operating revenues increased by $7.1 million to $579.6 million during the Fiscal Year Ended June 30, 2017, 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 increased travelers due to lower fuel prices.

- Operating expenses decreased by $3.3 million to $651.6 million during the Fiscal Year Ended June 30, 2017, primarily due to an increase in capitalized infrastructure projects such as the Route 301 and the West Dover Connector projects that were partially offset by other post-employment benefit plans and pension expense included in payroll costs.

- Total capital assets (net of depreciation) increased $193.3 million to $4,596.0 million during Fiscal Year 2017, primarily as a result of the following spending: US 301 - $123.2 million; SR-1 - $26.4 million; West Dover Connector - $17.5 million; Wilmington Riverfront/Christina River Bridge - $5.8 million; building and land improvements - $17.4 million; and truck, tractor, and equipment purchases - $25.2 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 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 $5,127.0 million at June 30, 2017, compared to $5,002.1 million at June 30, 2016, and $4,719.3 million at June 30, 2015. Total liabilities were $1,513.7 million at June 30, 2017, compared to $1,477.9 million at June 30, 2016, and $1,265.9 million at June 30, 2015. Net position at June 30, 2017 was $3,658.9 million, compared to $3,544.9 million at June 30, 2016, and $3,440.7 million at June 30, 2015.

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

	2017	2016	2015	Percentage Change 2017-2016	Percentage Change 2016-2015
Current assets	$ 441.4	$ 487.7	$ 322.7	(9.5)%	51.1 %
Capital assets	4,596.0	4,402.7	4,321.3	4.4	1.9
Other noncurrent assets	89.6	111.7	75.3	(19.8)	48.3
Total assets	5,127.0	5,002.1	4,719.3	2.5	6.0
Deferred outflows of resources	67.8	49.4	29.4	37.2	68.0
Current liabilities	199.1	206.6	194.6	(3.6)	6.2
Noncurrent liabilities	1,314.6	1,271.3	1,071.3	3.4	18.7
Total liabilities	1,513.7	1,477.9	1,265.9	2.4	16.7
Deferred inflows of resources	22.2	28.7	42.1	(22.6)	(31.8)
Net position					
Net investment in capital assets	3,620.0	3,505.9	3,445.9	3.3	1.7
Restricted	177.5	196.6	153.1	(9.7)	28.4
Unrestricted	(138.6)	(157.6)	(158.3)	(12.1)	(0.4)
Total net position	$ 3,658.9	$ 3,544.9	$ 3,440.7	3.2	3.0

For Fiscal Year 2017, the increase in capital assets is primarily a result of the following spending: US 301 - $123.2 million; SR-1 - $26.4 million; West Dover Connector - $17.5 million; Wilmington Riverfront/Christina River Bridge - $5.8 million; building and land improvements - $17.4 million; and truck, tractor, and equipment purchases - $25.2 million.

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 2017, the increase in total liabilities is primarily the result of increased pension and other post-employment benefit liabilities, offset by a reduction in revenue bonds payable and related premiums due to limited new money bond issues.

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 2017, the net position increased primarily due to a decrease in overall expenditures.

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

Changes in Net Position

The Department's net position was $3,658.9 million at June 30, 2017, compared to $3,544.9 million at June 30, 2016, and $3,440.7 million at June 30, 2015. Operating revenues were $579.6 million at June 30, 2017, compared to $572.5 million at June 30, 2016, and $510.9 million at June 30, 2015. Total operating expenses were $651.6 million at June 30, 2017, compared to $654.9 million at June 30, 2016, and $601.0 million at June 30, 2015.

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

				Percentage Change	
	2017	2016	2015	2017-2016	2016-2015
Operating revenues	$ 579.6	$ 572.5	$ 510.9	1.2 %	12.1 %
Operating expenses					
Operating expenses	622.0	627.3	573.8	(0.8)	9.3
Depreciation	29.6	27.6	27.2	7.2	1.5
Total operating expenses	651.6	654.9	601.0	(0.5)	9.0
Operating loss	(72.0)	(82.4)	(90.1)	(12.6)	(8.5)
Nonoperating revenues, net	187.2	182.6	212.3	2.5	(14.0)
Income before transfers	115.2	100.2	122.2	15.0	(18.0)
Transfers, net	(1.2)	4.0	(7.1)	(130.0)	(156.3)
Change in net position	114.0	104.2	115.1	9.4	(9.5)
Total net position - beginning of year, as previously stated	3,544.9	3,440.7	3,361.9	3.0	2.3
Prior period adjustment - implementation of GASB Nos. 68 and 71	-	-	(36.3)	N/A	(100.0)
Total net position - beginning of year, as restated	3,544.9	3,440.7	3,325.6	3.0	3.5
Total net position - end of year	$ 3,658.9	$ 3,544.9	$ 3,440.7	3.2	3.0

The increase in operating revenues from 2016 to 2017 is primarily attributed to increases in turnpike revenues, motor fuel tax revenues, and motor vehicle revenues as a result of continued low fuel prices and increased travel and new car sales.

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 decrease in total operating expenses from 2016 to 2017 is primarily due to an increase in capitalized infrastructure projects such as the Route 301 and the West Dover Connector projects that were partially offset by other post-employment benefit plans and pension expense included in payroll costs.

The decrease 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 nonoperating revenues from 2016 to 2017 is a result of increased federal grant revenues due to more federal spending on federal capital projects and a reduction in interest expense driven by the continued ability to raise capital at historically low rates.

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

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the Department had invested $4,820.9 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2017 totaled $4,596.0 million. This amount represents a net increase (including additions and disposals, and net of depreciation) of $193.3 million over June 30, 2016. The increase is primarily a result of the following infrastructure and equipment spending: US 301 - $123.2 million; SR-1 - $26.4 million; West Dover Connector - $17.5 million; Wilmington Riverfront/Christina River Bridge - $5.8 million; building and land improvements - $17.4 million; and truck, tractor, and equipment purchases - $25.2 million.

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.

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 95% of its national bridge inventory (combined structural and deck ratings) at a fair 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 bridges 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 perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9. A 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 843 bridge structures that were rated in 2017, 69.0% received a good or better BCR rating, 27.0% were rated fair, and 4.0% received a substandard rating. Of the 7,853,193 square feet of bridge deck that was rated, 61.0%, or 4,788,784 square feet, received an OPC condition rating of good or better, 34.0% received a fair rating, and 5.0% received a substandard deck rating. Of the 4,452 center-line 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 2017.

The estimate to maintain and preserve the Department's infrastructure was $246.9 million and $242.3 million for 2017 and 2016, respectively. The actual expenditures were $297.4 million and $281.6 million for 2017 and 2016, 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, 2017, the Authority had $982.9 million in revenue bonds outstanding, a 0.3% decrease from June 30, 2016. During Fiscal Year 2017, the Department issued $107.0 million of Transportation System Senior Revenue Bonds, 2017 Series, to provide for additional project funding and an advance refunding of $39.8 million prior Transportation System Senior Revenue Bonds.

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, 2017 and 2016, the Authority had a total of $213.5 million and $262.4 million, respectively, 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, 2017 and 2016

	2017	2016
Current assets		
Cash and cash equivalents		
Unrestricted	$ 39,526,559	$ 108,101,782
Restricted	26,980,559	18,008,044
Pooled cash and investments	8,691,035	9,007,609
Investments - at fair value		
Unrestricted	179,829,045	21,025,615
Restricted	112,034,530	244,933,706
Accounts receivable		
Trade	21,708,729	25,397,945
Federal grants	17,476,933	29,074,506
Interest	722,013	837,426
Due from State General Fund	14,738,634	12,000,000
Inventory	19,511,213	19,172,307
Other assets	145,002	175,354
Total current assets	441,364,252	487,734,294
Noncurrent assets		
Capital assets, not depreciable		
Land	310,297,837	306,703,771
Infrastructure	4,005,063,273	3,823,200,988
Construction in progress	10,768,171	15,672,104
Service concession buildings and improvements	22,100,000	22,100,000
Capital assets, depreciable		
Buildings and improvements	163,038,465	145,591,334
Fixtures, vehicles, and equipment	309,593,452	308,634,718
Total capital assets	4,820,861,198	4,621,902,915
Less: accumulated depreciation	224,907,002	219,201,504
Capital assets, net	4,595,954,196	4,402,701,411
Investments - at fair value, net of current portion		
Unrestricted	903,848	1,540,498
Restricted	88,799,901	110,116,879
Total noncurrent assets	4,685,657,945	4,514,358,788
Total assets	5,127,022,197	5,002,093,082
Deferred outflows of resources		
Loss on refundings of debt	33,277,520	36,409,367
Changes in employer proportionate share of net pension liability	127,296	169,728
Changes in pension plan assumptions	4,970,789	-
Differences between projected and actual earnings on pension plan investments	20,878,166	3,811,702
Pension contributions made after the measurement date	8,525,104	9,016,373
Total deferred outflows of resources	67,778,875	49,407,170

(Continued)

State of Delaware
Department of Transportation
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Current liabilities		
Accounts payable and other accrued expenses	$ 61,351,157	$ 60,851,594
Accrued payroll and related expenses	7,013,639	6,852,908
Escrow deposits	8,691,035	9,007,609
Customer toll deposits	13,873,166	15,219,424
Interest payable	16,622,632	17,637,903
Due to State General Fund	-	4,478,436
Pollution remediation obligations	741,000	883,000
Insurance loss reserve	2,531,116	2,827,546
Compensated absences	1,976,756	2,101,635
Revenue bonds payable	69,880,000	70,595,000
Bond issue premium - net of accumulated amortization	16,375,072	16,166,236
Total current liabilities	199,055,573	206,621,291
Noncurrent liabilities		
Other post-employment benefits payable	262,542,295	236,246,729
Compensated absences - net of current portion	9,710,852	9,468,506
Insurance loss reserve - net of current portion	6,919,884	6,897,454
Pollution remediation obligations - net of current portion	342,500	2,941,500
Revenue bonds payable - net of current portion	912,985,000	915,700,000
Bond issue premium - net of accumulated amortization and current portion	62,815,570	70,904,391
Net pension liability	59,300,839	29,084,750
Total noncurrent liabilities	1,314,616,940	1,271,243,330
Total liabilities	1,513,672,513	1,477,864,621
Deferred inflows of resources		
Service concession arrangement	17,680,000	18,311,429
Changes in employer proportionate share of net pension liability	1,811,470	1,453,310
Differences between expected and actual experience - pension plans	2,288,910	904,783
Differences between projected and actual earnings on pension plan investments	431,566	8,072,303
Total deferred inflows of resources	22,211,946	28,741,825
Net position		
Net investment in capital assets	3,619,968,047	3,505,882,127
Restricted	177,526,657	196,601,976
Unrestricted	(138,578,091)	(157,590,297)
Total net position	$ 3,658,916,613	$ 3,544,893,806

See accompanying notes to financial statements.

State of Delaware
Department of Transportation
Statements of Revenues, Expenses, and Changes in Fund Net Position
June 30, 2017 and 2016

	2017	2016
Operating revenues		
Pledged revenue		
Turnpike revenue	$ 136,158,518	$ 132,517,327
Motor fuel tax revenue	129,645,019	124,573,140
Motor vehicle document fee revenue	116,318,908	107,765,732
Motor vehicle registration fee revenue	54,462,766	52,339,415
Other motor vehicle revenue	40,213,502	38,025,381
International Fuel Tax Agreement revenue	2,486,610	1,947,891
Toll revenue - Delaware SR-1	61,266,833	59,813,890
Passenger fares	17,570,463	18,286,391
Miscellaneous	21,484,572	37,197,315
Total operating revenues	579,607,191	572,466,482
Operating expenses		
Road maintenance, preservation, and repairs	181,026,803	204,208,841
Payroll expense	220,498,560	204,002,978
Professional fees and services	180,477,285	171,221,236
Materials, supplies, and other	40,000,505	47,864,001
Depreciation	29,640,939	27,607,867
Total operating expenses	651,644,092	654,904,923
Operating loss	(72,036,901)	(82,438,441)
Nonoperating revenues (expenses)		
Income from investments - pledged	284,612	5,035,681
Income from investments	63,915	-
Bad debt recovery, net of expenses	983,927	960,395
Federal grant revenue	212,668,097	204,961,690
Pass-through grant revenue	-	2,483,599
Pass-through grant expense	(5,915,808)	(5,375,069)
Interest expense	(21,448,380)	(26,132,947)
Service concession arrangement	631,429	631,428
Excess of nonoperating revenues over nonoperating expenses	187,267,792	182,564,777
Income before transfers	115,230,891	100,126,336
Transfers to other governmental agencies	(5,627,170)	(5,125,703)
Transfers to State General Fund	(5,000,000)	(5,000,000)
Transfers from State General Fund	9,419,086	14,168,391
Change in fund net position	114,022,807	104,169,024
Fund net position - beginning of year	3,544,893,806	3,440,724,782
Fund net position - end of year	$ 3,658,916,613	$ 3,544,893,806

See accompanying notes to financial statements.

State of Delaware
Department of Transportation
Statements of Cash Flows
June 30, 2017 and 2016

		2017		2016
Cash flows from operating activities				
Receipts from customers	$	578,657,584	$	566,121,986
Payments to suppliers		(407,708,397)		(405,195,277)
Payments to employees		(189,711,456)		(180,623,045)
Insurance claims paid		(5,347,175)		(6,648,744)
Other receipts		2,975,991		2,540,447
Net cash used in operating activities		(21,133,453)		(23,804,633)
Cash flows from noncapital financing activities				
Transfers from State General Fund		9,419,086		14,168,391
Transfers to State General Fund		(5,000,000)		(5,000,000)
Federal operating subsidies		8,157,491		7,671,890
Pass-through grant revenue		-		2,483,595
Pass-through grant payments		(5,915,808)		(5,375,069)
Transfers to other governmental agencies		(5,627,170)		(5,125,703)
Net cash provided by noncapital financing activities		1,033,599		8,823,104
Cash flows from capital and related financing activities				
Payments of revenue bond principal		(70,595,000)		(72,580,000)
Proceeds from revenue bond sales		107,000,000		394,010,000
Premium from revenue bond sales		8,599,690		56,941,890
Amounts paid to escrow agent for refunding		(40,759,250)		(217,322,016)
Proceeds from capital grants		216,108,182		195,433,373
Acquisition of capital assets		(214,285,935)		(104,075,701)
Payments of interest		(45,102,742)		(45,300,111)
Net cash provided by (used in) capital and related financing activities		(39,035,055)		207,107,435
Cash flows from investing activities				
Purchase of investments		(3,664,565,344)		(3,397,323,999)
Proceeds from sale of investments		3,660,614,718		3,260,404,451
Collection on loans previously written off		998,927		960,395
Escrow insurance deposits		110,665		(3,387)
Interest received		2,056,661		5,198,551
Net cash used in investing activities		(784,373)		(130,763,989)
Net increase (decrease) in cash and cash equivalents		(59,919,282)		61,361,917
Cash and cash equivalents - beginning of year		135,117,435		73,755,518
Cash and cash equivalents - end of year	$	75,198,153	$	135,117,435

(Continued)

State of Delaware
Department of Transportation
Statements of Cash Flows
June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (72,036,901)	$ (82,438,441)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	29,640,939	27,607,867
Changes in assets and liabilities		
(Increase) decrease in accounts receivable - trade	3,689,216	(4,871,766)
(Increase) decrease in due from State General Fund	(2,738,634)	5,150,000
(Increase) decrease in inventory	(338,906)	(1,521,157)
(Increase) decrease in prepaid expenses	(80,313)	35,363
Pension adjustment	2,814,087	(1,435,639)
Increase in accounts payable and other accrued expenses	499,563	19,214,946
Increase (decrease) in escrow deposits	(316,574)	336,054
Decrease in insurance loss reserve	(274,000)	(1,929,000)
Decrease in due to State General Fund	(4,478,436)	(8,941,822)
Increase (decrease) in compensated absences	117,467	(344,798)
Increase in accrued payroll and related expenses	160,731	979,026
Increase (decrease) in customer toll deposits	(1,346,258)	731,662
Increase (decrease) in pollution remediation obligations	(2,741,000)	1,831,500
Increase in post-employment benefits payable	26,295,566	21,791,572
Net cash used in operating activities	$ (21,133,453)	$ (23,804,633)

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, 2017 and 2016, 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 securities, U.S government agency securities, and commercial paper, 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. 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 2017. There were no borrowings against the line at June 30, 2017 and 2016. The line bears interest on the amount that has been advanced from time to time pursuant to the bank loan agreements. At June 30, 2017 and 2016, the interest rate was equal to 1.3226% and 0.8350%, 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. Revenues from DART cards are recognized at the point of sale.

(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 $16,367,363 and $14,427,062 of reductions of interest expense in 2017 and 2016, 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,:

	2017	2016
Deferred outflows of resources		
Loss on refundings of debt	$ 33,277,520	$ 36,409,367
Changes in employer proportionate share of net pension liability	127,296	169,728
Changes in pension plan assumptions	4,970,789	-
Differences between projected and actual earnings on pension plan investments	20,878,166	3,811,702
Pension contributions made after the measurement date	8,525,104	9,016,373
Total deferred outflows of resources	$ 67,778,875	$ 49,407,170
Deferred inflows of resources		
Service concession arrangement	$ 17,680,000	$ 18,311,429
Changes in employer proportionate share of net pension liability	1,811,470	1,453,310
Differences between expected and actual experience - pension plans	2,288,910	904,783
Differences between projected and actual earnings on pension plan investments	431,566	8,072,303
Total deferred inflows of resources	$ 22,211,946	$ 28,741,825

(n) Adoption of Governmental Accounting Standards Board Statements

During the Fiscal Year Ended June 30, 2017, the Department adopted GASB Statement No. 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses certain issues raised with respect to GASB No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of GASB No. 82 had no impact on the financial statements of the Department.

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.

(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 investment of all money belonging to the State or on deposit from its political subdivisions, other than money deposited in any State Pension Fund or the State Deferred Compensation Program and to determine the terms, conditions, and other matters relating to those investments, including the designation of permissible investments (29 De.C. §2716(a)). 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.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits, but also encourages, diversifying investments across various asset classes.

Investment Guidelines and Management

The Policy requires State funds to be allocated and held in the following categories of accounts:

- Collection and disbursement accounts
- Liquidity accounts
- Reserve accounts
- Endowment accounts
- Operating accounts

The Department's accounts are considered operating accounts. State agencies and other public authorities maintain various operating accounts with the intent of segregating such funds for accounting and reporting purposes. In addition, operating accounts may be created to meet particular purposes and/or to comply with State statutes, bond trust agreements, and/or federal guidelines. The investment objectives of such funds are to ensure safety and maximize return while providing for the liquidity requirements specifically identifiable to the use of such funds.

The Policy specifies the type of investments that investment managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested.

The following investments are permissible for operating accounts, subject to the percentage limitations of the account:

- U.S. Treasury obligations
- U.S. government agency obligations
- Certificates of deposit and time deposits
- Corporate debt instruments
- Repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities

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

(b) Custodial Credit Risk

Cash and Cash Equivalents

The Department's cash and cash equivalents held at external financial institutions at June 30, 2017 and 2016 were $66,507,118 and $126,109,826, respectively, and the bank balances were $67,319,364 and $125,917,047, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. Of the bank balances, $38,620,749 and $52,895,821 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2017 and 2016, respectively. The remaining bank balances of $28,698,615 and $73,021,226 were neither insured nor collateralized at June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, the Department also had $8,691,035 and $9,007,609, 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, 2017 and 2016, 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.

	Investments at Fair Value at June 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments measured at fair value				
U.S. government securities	$ 747,950	$ 65,999,307	$ -	$ 66,747,257
U.S. government agency securities	1,198,289	170,637,411	-	171,835,700
Commercial paper	2,399,816	139,584,661	-	141,984,477
Certificates of deposit	-	999,890	-	999,890
	$ 4,346,055	$ 377,221,269	$ -	$ 381,567,324

Description	Investments at Fair Value at June 30, 2016 Level 1	Level 2	Level 3	Total
Investments measured at fair value				
U.S. government securities	$ -	$ 67,380,847	$ -	$ 67,380,847
U.S. government agency securities	-	207,576,892	-	207,576,892
Commercial paper	-	102,143,810	-	102,143,810
Certificates of deposit	-	515,149	-	515,149
	$ -	$ 377,616,698	$ -	$ 377,616,698

(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, 2017:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1 - 5	6 - 10
U.S. government securities	$ 66,747,257	$ 27,525,230	$ 33,753,458	$ 5,468,569
U.S. government agency securities	171,835,700	121,954,177	47,929,335	1,952,188
Commercial paper	141,984,477	141,384,277	600,200	-
Certificates of deposit	999,890	999,890	-	-
Total investments	$ 381,567,324	$ 291,863,574	$ 82,282,993	$ 7,420,757

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

Investment Type	Fair Value	Investment Maturities (in Years) 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

(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.

The Policy requires that investments in:

- Certificates of deposit and time deposits be with a banking institution with assets of not less than $100 billion that is rated not lower than A1/P-1/F1 short term by at least two rating agencies;

- Money market funds be invested solely in government securities that are rated in the highest rating category by at least one rating agency;

- Asset-backed securities have the highest credit rating from at least two rating agencies; and

- Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S&P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

Investment	S&P	Moody's	Fitch
Commercial paper	A-2	P-2	F2
Senior long-term debt	A-	A3	A-*
Corporate bonds and debentures	A-	A3	A-

*Excluding asset-backed commercial paper that is rated A1 or better

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 $141,984,477 and $102,143,810 at June 30, 2017 and 2016, 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.

A. U.S. Treasury obligations - no restrictions.

B. U.S. government agency obligations - 50% in total; 20% in any one issuer.

C. Certificates of deposit and time deposits - 50% in total (domestic and non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.

D. Corporate debt - 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.

E. Repurchase agreements - 50% in total; provided that any securities purchased subject to repurchase agreements shall be subject to the respective Percentage Limit for such security type as set forth in the Policy and valued for such purposes at the lesser of fair market value and 102% of the maturity value of the securities pursuant to the repurchase agreement and marked-to-the-market daily as requested by the investment manager.

F. Money market funds - no restrictions.

G. Canadian treasuries - 25% in total.

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

I. Mortgage-backed and asset-backed securities - 10% in total.

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2017:

Federal Home Loan Mortgage Corporation	$ 68,454,115	18%
United States Treasury	66,747,256	17
Federal National Mortgage Association	58,335,110	15
Federal Home Loan Bank	28,967,010	8

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

(f) Investment Commitments

The Department has made no investment commitments as of June 30, 2017.

(g) Funding of Unpaid Loss Insurance Reserve Liability

Included in cash at Fiscal Years June 30, 2017 and 2016 was $9,390,922 and $9,554,257, 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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 306,703,771	$ 3,594,066	$ -	$ 310,297,837
Infrastructure	3,823,200,988	181,862,285	-	4,005,063,273
Service concession buildings and improvements	22,100,000	-	-	22,100,000
Construction-in-progress	15,672,104	2,664,197	(7,568,130)	10,768,171
Total capital assets not being depreciated	4,167,676,863	188,120,548	(7,568,130)	4,348,229,281
Capital assets being depreciated				
Buildings and improvements	145,591,334	17,447,131	-	163,038,465
Furniture, vehicles, and equipment	308,634,718	25,263,386	(24,304,652)	309,593,452
Total capital assets being depreciated	454,226,052	42,710,517	(24,304,652)	472,631,917
Less: accumulated depreciation for				
Buildings and improvements	49,138,197	4,863,919	-	54,002,116
Furniture, vehicles, and equipment	170,063,307	24,777,020	(23,935,441)	170,904,886
Total accumulated depreciation	219,201,504	29,640,939	(23,935,441)	224,907,002
Total capital assets being depreciated, net	235,024,548	13,069,578	(369,211)	247,724,915
Total capital assets, net	$ 4,402,701,411	$ 201,190,126	$ (7,937,341)	$ 4,595,954,196

Depreciation expense for Fiscal Year 2017 was $29,640,939. Increases in capital assets include capitalized construction period interest of $8,607,789 for Fiscal Year 2017.

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.

(5) Changes in Long-Term Liabilities

Long-term liability activity for the Fiscal Year Ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 986,295,000	$ 107,000,000	$ (110,430,000)	$ 982,865,000	$ 69,880,000
Bond issue premium, net of accumulated amortization	87,070,627	8,599,690	(16,479,675)	79,190,642	16,375,072
Insurance loss reserve	9,725,000	5,073,175	(5,347,175)	9,451,000	2,531,116
Post-employment benefits	236,246,729	41,713,745	(15,418,179)	262,542,295	-
Pollution remediation obligations	3,824,500	-	(2,741,000)	1,083,500	741,000
Net pension liability	29,084,750	30,216,089	-	59,300,839	-
Compensated absences	11,570,141	117,467	-	11,687,608	1,976,756
Long-term liabilities	$ 1,363,816,747	$ 192,720,166	$ (150,416,029)	$ 1,406,120,884	$ 91,503,944

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

(6) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2017 and 2016 were as follows:

Date of Issue/ Maturity	Amount of Original Issue	Description and Fixed Interest Rates	2017	2016
Senior Bonds:				
2006/2026	$ 127,445,000	Transportation System Senior Revenue Bonds, 2006, 5.00%	$ -	$ 6,160,000
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A, 4.50% - 5.00%	5,220,000	50,030,000
2008/2028	84,720,000	Transportation System Senior Revenue Bonds, 2008A, 5.00%	4,325,000	19,680,000
2008/2029	117,875,000	Transportation System Senior Revenue Bonds, 2008B, 5.00%	15,665,000	20,395,000
2009/2029	105,315,000	Transportation System Senior Revenue Bonds, 2009A, 5.00%	14,850,000	19,335,000
2010/2019	47,715,000	Transportation System Senior Revenue Bonds, 2010A, 5.00%	20,290,000	28,820,000
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%	196,200,000	201,595,000
2014/2025	108,760,000	Transportation System Senior Revenue Bonds, 2014, 2.25% - 5.00%	80,880,000	94,565,000
2016/2029	181,475,000	Transportation System Senior Revenue Bonds, 2016, 2.00% - 5.00%	181,475,000	181,475,000
2017/2037	107,000,000	Transportation System Senior Revenue Bonds, 2017, 2.50% - 5.00%	107,000,000	-

Date of Issue/ Maturity	Amount of Original Issue	Description and Fixed Interest Rates	2017	2016
Other Bonds:				
2010/2025	$ 113,490,000	Transportation System Grant Anticipation (GARVEE) Bonds, 2010, 3.25% - 5.00%	$ 72,305,000	$ 79,585,000
2015/2055	212,535,000	Transportation System US 301 Project Revenue Bonds, 2015, 3.25% - 5.00%	212,535,000	212,535,000
		Total bonds payable	982,865,000	986,295,000
		Less: current portion	69,880,000	70,595,000
		Long-term portion	$ 912,985,000	$ 915,700,000

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, 2017 and 2016 were $115,176,132 and $117,029,967, 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,:

	2017	2016
Pledged operating revenues	$ 479,285,323	$ 457,168,886
Investment income	284,612	5,035,681
Total pledged revenues	$ 479,569,935	$ 462,204,567

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 $166 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 6.6% 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, 2017 and 2016, the Authority had a total of $213,535,415 and $262,369,957, respectively, 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, 2017 was as follows:

Years Ending June 30,	Principal Maturity	Interest Maturity	Total
2018	$ 69,880,000	$ 42,885,096	$ 112,765,096
2019	74,770,000	40,916,746	115,686,746
2020	75,440,000	37,233,638	112,673,638
2021	77,115,000	33,592,230	110,707,230
2022	76,925,000	29,894,593	106,819,593
2023 - 2027	283,905,000	100,831,518	384,736,518
2028 - 2032	100,665,000	58,764,917	159,429,917
2033 - 2037	36,790,000	48,969,548	85,759,548
2038 - 2042	25,075,000	43,457,437	68,532,437
2043 - 2047	39,695,000	36,931,950	76,626,950
2048 - 2052	66,505,000	24,684,750	91,189,750
2053 - 2056	56,100,000	5,720,000	61,820,000
	$ 982,865,000	$ 503,882,423	$ 1,486,747,423

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.

On May 10, 2017, the Trust Fund issued $107,000,000 of Transportation System Senior Revenue Bonds, 2017 Series, maturing between July 1, 2018 and July 1, 2037. The bonds bear coupon rates between 2.5% and 5%. The bonds were issued to provide funding for projects and an advance refunding of the following Transportation System Senior Revenue Bonds:

2007 Series A	$ 39,835,000

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $3,228,672 and a reduction of $3,803,952 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, 2017 and 2016, the amount of defeased debt outstanding amounted to $209,360,000 and $248,205,000, respectively.

(8) Restricted Net Position

Restricted net position was as follows at June 30,:

	2017	2016
Rebate funds		
Amounts generated from operations to meet future arbitrage rebate requirements	$ 582,977	$ 457,559
Debt service funds		
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments	96,627,556	113,410,628
Debt reserve funds		
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments	80,124,443	82,549,709
Highway beautification funds		
Amounts held in trust to be used for highway beautification	191,681	184,080
Total restricted net position	$ 177,526,657	$ 196,601,976

(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 2017 and 2016 were $9,682,514 and $8,946,973, 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 2017 and 2016 were $2,486,610 and $1,947,891, 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. 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.

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 67.7% with 2% reduction of benefit, 75% with 3% reduction of benefit, or 100% with 6% 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 9.58% and 9.56% for Fiscal Years 2016 and 2015, respectively. The Department's contributions to the Plan for Fiscal Years 2016 and 2015 were $6,508,251 and $6,508,133, 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 3.5621% and 3.6502% at June 30, 2016 and 2015, respectively.

(3) Net Pension Liability

For the Fiscal Years Ended June 30, 2017 and 2016, the Department reported a net pension liability in the amount of $53,679,225 and $24,283,925, respectively, for its proportionate share of the Plan's collective net pension liability. The net pension liability for the June 30, 2017 and 2016 measurement dates was determined by actuarial valuations as of June 30, 2016 and 2015, respectively, and update procedures were used to roll forward the valuation results. The actuarial valuations and related update procedures used the following actuarial assumptions:

	2016	2015
Investment rate of return/discount rate, including inflation	7.20%	7.20%
Projected salary increases, including inflation	2.50% + Merit	3.50% to 11.50%
Cost-of-living adjustments	0.00%	0.00%
Inflation	2.50%	3.00%

These assumptions are based on an experience study conducted in 2016. 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.

Key assumption changes include a reduction in the inflation assumption from 3.0% to 2.5% and a change to use updated mortality tables. Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version of the MP-2015 mortality improvement scale on a fully generational basis.

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 %	34.0 %
International equity	5.7	14.7
Fixed income	2.0	25.0
Non-traditional investments	7.8	20.9
Cash and cash equivalents	-	5.4

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, 2016	$ 93,300	$ 53,679	$ 20,368
June 30, 2015	$ 54,865	$ 24,284	$ (11,560)

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

For the Fiscal Years Ended June 30, 2017 and 2016, the Department recognized $9.2 and $4.9 million in pension expense, respectively, which represents its proportionate share of the Plan's collective pension expense.

Contributions made Subsequent to the Measurement Period - Contributions made subsequent to the measurement period of June 30, 2016 (Fiscal Year 2017 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net pension liability in Fiscal Year 2018.

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.

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.

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.

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 following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources related to the Plan for the Fiscal Year Ended June 30, 2017:

	Measurement Period Ended June 30,	Amortization Period	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
Deferred Outflows of Resources:						
Changes in employer proportionate share of net pension liability	2014	6 years	$ 169,728	$ -	$ (42,432)	$ 127,296
Differences between expected and actual earnings on pension plan investments	2016	5 years	-	20,913,320	(4,182,664)	16,730,656
Changes in assumptions	2016	6 years	-	5,964,947	(994,158)	4,970,789
Contributions made after the measurement date			6,508,251	6,575,636	(6,508,251)	6,575,636
Totals			$ 6,677,979	$ 33,453,903	$ (11,727,505)	$ 28,404,377
Deferred Inflows of Resources:						
Differences between expected and actual earnings on pension plan investments	2014	5 years	$ 16,822,609	$ -	$ (5,607,536)	$ 11,215,073
	2015	5 years	(9,397,654)	-	2,349,414	(7,048,240)
	2016	5 years	-	(5,208,540)	1,041,707	(4,166,833)
			7,424,955	(5,208,540)	(2,216,415)	-
Differences between expected and actual experience - pension plans	2015	6 years	544,722	-	(108,944)	435,778
	2016	6 years	-	890,004	(148,334)	741,670
			544,722	890,004	(257,278)	1,177,448
Changes in employer proportionate share of net pension liability	2015	6 years	1,453,310	-	(290,662)	1,162,648
	2016	6 years	-	778,586	(129,764)	648,822
			1,453,310	778,586	(420,426)	1,811,470
Totals			$ 9,422,987	$ (3,539,950)	$ (2,894,119)	$ 2,988,918

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources related to the Plan for the Fiscal Year Ended June 30, 2016:

	Measurement Period Ended June 30,	Amortization Period	Balance at June 30, 2015	Additions	Deductions	Balance at June 30, 2016
Deferred Outflows of Resources:						
Changes in employer proportionate share of net pension liability	2014	6 years	$ 212,160	$ -	$ (42,432)	$ 169,728
Contributions made after the measurement date			6,508,133	6,508,251	(6,508,133)	6,508,251
Totals			$ 6,720,293	$ 6,508,251	$ (6,550,565)	$ 6,677,979
Deferred Inflows of Resources:						
Differences between expected and actual earnings on pension plan investments	2014	5 years	$ 22,430,145	$ -	$ (5,607,536)	$ 16,822,609
	2015	5 years	-	(11,747,069)	2,349,414	(9,397,655)
			22,430,145	(11,747,069)	(3,258,122)	7,424,954
Differences between expected and actual experience - pension plans	2015	6 years	-	653,666	(108,944)	544,722
Changes in employer proportionate share of net pension liability	2015	6 years	-	1,743,972	(290,662)	1,453,310
Totals			$ 22,430,145	$ (9,349,431)	$ (3,657,728)	$ 9,422,986

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 Ending June 30,:

2018	$ 2,325,135
2019	2,325,135
2020	7,932,671
2021	5,540,825
2022	716,057

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 Specialized 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,:

	2016	2015
Active members	296	272
Inactive members or beneficiaries currently receiving benefits	64	58
Terminated, vested members	67	63
Totals	427	393

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

	2016	2015
Active members	647	638
Inactive members or beneficiaries currently receiving benefits	174	163
Terminated, vested members	76	82
Totals	897	883

(2) Benefits

The DTC Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible for early retirement 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. Benefits fully vest after five years of credited service.

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.

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. As of December 31, 2016 and 2015, the monthly benefits were $68 and $65 per year of service, respectively. Effective January 1, 2017, the multiplier for employees who retire after December 31, 2016 was increased to a monthly benefit per year of service of $68.50. 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 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, 2017 were $1,103,640 and $1,079,529, respectively. 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.

(4) Net Pension Liability

The DTC Plan's net pension liability for the Fiscal Years Ended June 30, 2017 and 2016 was determined by actuarial valuations as of July 1, 2016 and 2015. Update procedures were used to roll forward the valuation results. There have been no changes between the measurement date of the net pension liability and the report date that are expected to have a significant effect on the net pension liability.

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	7.5%, 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	5.20	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 for the calendar years ended December 31, 2016 and 2015 was determined by actuarial experience studies as of January 1, 2017 and 2016. There have been no changes between the measurement date of the net pension liability and the report date that are expected to have a significant effect on the net pension liability. 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%
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	6.48 %	39.00 %
International equity	6.65	15.00
Emerging equity	7.20	6.00
Core fixed income	3.13	28.00
Intermediate IG Corp	4.00	2.75
Bank loans	2.89	2.75
High yield	4.75	2.75
Emerging debt	5.25	2.75
Cash equivalents	0.75	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

Changes in DTC's net pension liability for the Fiscal Year Ended June 30, 2017 were as follows:

	DTC Plan			DART Plan			Totals		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances at 7/1/15 (DTC Plan) and 1/1/16 (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 for the year									
Service cost	872,981	-	872,981	2,048,021	-	2,048,021	2,921,002	-	2,921,002
Interest	1,724,155	-	1,724,155	3,209,211	-	3,209,211	4,933,366	-	4,933,366
Changes of benefit terms	-	-	-	196,533	-	196,533	196,533	-	196,533
Differences between expected and actual experience	(693,032)	-	(693,032)	(217,407)	-	(217,407)	(910,439)	-	(910,439)
Contributions - employer	-	1,103,640	(1,103,640)	-	1,079,529	(1,079,529)	-	2,183,169	(2,183,169)
Contributions - member	-	81,088	(81,088)	-	1,359,960	(1,359,960)	-	1,441,048	(1,441,048)
Net investment income	-	404,749	(404,749)	-	2,550,243	(2,550,243)	-	2,954,992	(2,954,992)
Benefit payments, including refunds of member contributions	(705,056)	(705,056)	-	(2,410,564)	(2,410,564)	-	(3,115,620)	(3,115,620)	-
Administrative expenses	-	(165,664)	165,664	-	(93,872)	93,872	-	(259,536)	259,536
Net changes	1,199,048	718,757	480,291	2,825,794	2,485,296	340,498	4,024,842	3,204,053	820,789
Balances at 6/30/16 (DTC Plan) and 12/31/16 (DART Plan)	$ 24,540,311	$ 22,668,043	$ 1,872,268	$ 47,808,538	$ 44,059,192	$ 3,749,346	$ 72,348,849	$ 66,727,235	$ 5,621,614

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Changes in DTC's net pension liability 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 (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (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

(7) Sensitivity of Net Pension Liability 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, 2016, and the DART Plan's discount rate as of December 31, 2016 were as follows:

	1% Decrease	Current Discount Rate	1% Increase
DTC Plan (7.5%)	$ 4,839,404	$ 1,872,268	$ (633,117)
DART Plan (7.0%)	$ 8,775,054	$ 3,749,346	$ (584,059)

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)

(8) 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,:

	2017	2016
Service cost	$ 872,981	$ 842,642
Interest	1,724,155	1,612,332
Member contributions	(81,088)	(57,524)
Difference between actual and expected experience	(123,725)	(37,096)
Administrative expenses	165,664	94,214
Projected earnings on plan investments	(1,657,972)	(1,585,475)
Amortization of investment return differences	241,043	(9,602)
Pension expense	$ 1,141,058	$ 859,491

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

	2017	2016
Service cost	$ 2,048,021	$ 1,976,155
Interest	3,209,211	2,924,733
Member contributions	(1,359,960)	(1,387,616)
Benefit changes	196,533	1,472,788
Difference between actual and expected experience	(35,310)	(11,154)
Administrative expenses	93,872	99,492
Projected earnings on plan investments	(2,907,938)	(2,864,345)
Amortization of investment return differences	818,284	746,745
Pension expense	$ 2,062,713	$ 2,956,798

Contributions made Subsequent to the Measurement Period - Contributions made subsequent to the measurement period (Fiscal Year 2017 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net pension liability in Fiscal Year 2018.

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.

Changes 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. 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.

Differences 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 either a deferred outflow or deferred inflow of resources.

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources related to the DTC Plan and DART Plan for the Fiscal Year Ended June 30, 2017:

	Measurement Period	Amortization Period	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
Deferred Outflows of Resources:						
Differences between expected and actual earnings on pension plan investments	2015	5 years	$ 3,811,702	$ -	$ (952,926)	$ 2,858,776
	2016	5 years	-	1,610,918	(322,184)	1,288,734
			3,811,702	1,610,918	(1,275,110)	4,147,510
Contributions made after the measurement date			2,508,122	1,949,468	(2,508,122)	1,949,468
Totals			$ 6,319,824	$ 3,560,386	$ (3,783,232)	$ 6,096,978
Deferred Inflows of Resources:						
Differences between expected and actual earnings on pension plan investments	2014	5 years	$ 521,937	$ -	$ (184,430)	$ 337,507
	2015	5 years	125,412	-	(31,353)	94,059
			647,349	-	(215,783)	431,566
Differences between expected and actual experience - pension plans	2015	8-10 years	360,061	-	(48,250)	311,811
	2016	8-9 years	-	910,439	(110,788)	799,651
			360,061	910,439	(159,038)	1,111,462
Totals			$ 1,007,410	$ 910,439	$ (374,821)	$ 1,543,028

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources related to the DTC Plan and DART Plan for the Fiscal Year Ended June 30, 2016:

	Measurement Period	Amortization Period	Balance at June 30, 2015	Additions	Deductions	Balance at June 30, 2016
Deferred Outflows of Resources:						
Differences between expected and actual earnings on pension plan investments	2015	5 years	$ -	$ 4,856,818	$ (1,045,116)	$ 3,811,702
Contributions made after the measurement date			2,232,549	2,508,122	(2,232,549)	2,508,122
Totals			$ 2,232,549	$ 7,364,940	$ (3,277,665)	$ 6,319,824
Deferred Inflows of Resources:						
Differences between expected and actual earnings on pension plan investments	2014	5 years	$ 706,367	$ -	$ (184,430)	$ 521,937
	2015	5 years	-	156,765	(31,353)	125,412
			706,367	156,765	(215,783)	647,349
Differences between expected and actual experience - pension plans	2015	8-10 years	-	408,311	(48,250)	360,061
Totals			$ 706,367	$ 565,076	$ (264,033)	$ 1,007,410

The net collective deferred outflows (inflows) will be recognized in pension expense during the Fiscal Years Ending June 30,:

2018	$ 900,292
2019	900,292
2020	1,116,073
2021	163,147
2022	(159,035)
Thereafter	(316,287)

(9) Payable to the Plans

At June 30, 2017 and 2016, DTC reported payables of $11,204 and $28,548, respectively, for the outstanding amount of contributions due to the DTC Plan. At June 30, 2017 and 2016, DTC reported payables of $247,179 and $869,532, 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,:

	2017	2016
Retirees and beneficiaries receiving benefits	21,689	20,970
Terminated plan members entitled to, but not yet receiving, benefits	3,384	3,205
Active eligible plan members	36,950	36,748
Totals	62,023	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, 2017 and 2016, 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 and before January 1, 2007 (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

If hired on or after January 1, 2007 (except disability pension), contributions depend on years of service, as follows:

Years of Service	Percent of Premium Paid by State
Less than 15	0 %
15 - 17.5	50
17.5 - 19	75
20 or more	100

Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay in addition to their percentage above, an additional 5% of the Medicare supplement offered by the State.

(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 2017, the State contribution in relation to the annual required contribution (ARC) totaled $237.4 million. The portion of the contribution allocated to the Department for Fiscal Year 2017 was $11.9 million. For Fiscal Year 2016, the State contribution in relation to the ARC totaled $217.8 million. The portion of the contribution allocated to the Department for Fiscal Year 2016 was $11.0 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 2017 and 2016 totaled $14.7 and $10.2 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, 2017:

	(in Millions)	
	State Total	**Department Allocation**
Net OPEB obligation as of June 30, 2016	$ 2,390.8	$ 123.9
Annual required contribution	542.5	27.1
Interest on net OPEB obligation	89.7	4.5
Adjustment to annual required contribution	(85.8)	(4.3)
Annual OPEB cost	2,937.2	151.2
Employer contributions	(237.4)	(11.9)
Net OPEB obligation as of June 30, 2017	$ 2,699.8	$ 139.3

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	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 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
06/30/2017	$ 151.2	8 %	$ 139.3
06/30/2016	134.9	8	123.9
06/30/2015	124.3	9	112.9

(e) Funded Status and Funding Progress

As of June 30, 2017, the plan was 4.1% funded. The actuarial accrued liability for benefits was $8,611.0 million, and the actuarial value of assets was $355.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $8,256.0 million for the State. The covered payroll (annual payroll of active employees covered by the Plan) was $2,052.0 million, and the ratio of the UAAL to the covered payroll was 402.3%. 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, 2017 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% (plus merit scale) rate of salary increase.

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.

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,:

	2016	2015
Retirees and beneficiaries receiving benefits	230	230
Terminated plan members entitled to, but not yet receiving, benefits	62	67
Active eligible plan members	876	851
Totals	1,168	1,148

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:

For employees hired before January 1, 2016 - Age 65 with five years of service or after attaining 25 years of service.

For employees hired after January 1, 2016 - Age 65 with ten years of service or after attaining 25 years of service.

Non-Contract Employees:

For employees hired before January 1, 2016 - Age 55 with 10 years of service or age 62 with five years of service.

For employees hired after January 1, 2016 - Age 55 with ten years of service.

Benefits

During the Fiscal Year Ended June 30, 2017, 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 and Employer Contributions

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 $3,572,186 and $1,823,828 for the Fiscal Years Ended June 30, 2017 and 2016, respectively.

(3) Employer Subsidy

Medical, Dental, and Vision for Employees Hired Before January 1, 2016:

DTC subsidizes 90% of medical premiums based on 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 non-contract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium.

Medical, Dental, and Vision for Employees Hired After January 1, 2016:

DTC subsidizes 50% of medical premiums based on published rates after 10 years of service, 75% after 15 years of service, and 100% (minus equivalent of employee premium) after 20 years of service. DTC subsidizes 100% of the dental and vision coverage for all employees after 10 years of service.

Life Insurance

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, 2017:

Net OPEB obligation as of June 30, 2016	$ 112,331,937
Annual required contribution	16,073,000
Interest on net OPEB obligation	4,493,000
Adjustment to annual required contribution	(6,117,000)
Annual OPEB cost	126,780,937
Employer contributions	(3,572,186)
Net OPEB obligation as of June 30, 2017	$ 123,208,751

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

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**
06/30/2017	$ 14,449,000	24.72 %	$ 123,208,751
06/30/2016	12,647,000	14.42	112,331,937
06/30/2015	11,950,000	11.71	101,508,765

(5) Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 2.0% funded. The actuarial accrued liability was $125,906,000, and the actuarial value of assets was $2,506,000, resulting in a UAAL of $123,400,000. The covered payroll (annual payroll of active employees covered by the plan) was $47,221,231, and the ratio of the UAAL to the covered payroll was 261.3%.

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, 2016 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 Medical Trend Model adjusted for the projected impact of the cadillac tax for pre-age 65 retirees. Sample trends are as follows:

2017	5.4%
2022	5.0
2027	5.0
2052	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 $540,519,685 for construction of various highway projects at June 30, 2017. 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, 2017 and 2016, the Department had outstanding pollution remediation liabilities of $1,083,500 and $3,824,500, 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 2017 and 2016 was calculated as $2.00 per $100 on gross wages and $4.00 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)
2017	$ 5,040,000	$ 1,000,000	***
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	2017	2016
2017	$ 3,592,000	$ -
2016	2,857,000	3,414,000
2015	1,828,000	3,019,000
2014	615,000	2,196,000
2013	282,000	966,000
2012	77,000	-
2011	196,000	126,000
2000	4,000	4,000
	$ 9,451,000	$ 9,725,000

Changes in the balance of total claim liabilities during Fiscal Year 2017 and 2016 were as follows:

Fiscal Year	Beginning Balance - July 1	Current Year Estimated Claims and Changes in Estimates	Actual Claim Payments	Ending Balance - June 30
2017	$ 9,725,000	$ 5,073,175	$ (5,347,175)	$ 9,451,000
2016	$ 11,654,000	$ 4,719,744	$ (6,648,744)	$ 9,725,000

(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 $168,539 and $234,399 for the Fiscal Years Ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2017 are as follows:

2018	$ 158,795
2019	158,795
2020	143,957
2021	111,319
2022	31,319
Thereafter	7,830
	$ 612,015

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. On September 2, 2016, DTC entered into a new lease contract for a three-year period with the option to extend the contract up to two times for a period of up to one year. Similar to the prior lease, 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, 2017 and 2016, DTC incurred expenses related to this lease of $636,726 and $457,901, 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,:

	2017	2016
Amounts transferred to the Trust Fund		
Division of Motor Vehicles	$ 2,860,347	$ 2,870,891
Division of Revenue, Motor Vehicle		
Dealer/Lessor License and Document Fees	585,912	542,963
Build America Bond	1,822,827	604,537
E-ZPass Operations	5,000,000	5,000,000
Other	(850,000)	5,150,000
	$ 9,419,086	$ 14,168,391

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, 2017 and 2016 were $104,006,245 and $95,281,735, 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, 2014, and a related deferred inflow of resources of $22,100,000, which is being amortized over 35 years. Amortization expense for the Fiscal Years Ended June 30, 2017 and 2016 was $631,429 and $631,428, respectively.

(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, 2017 and 2016.

Condensed Statements of Net Position

	2017	2016
Assets		
Current assets	$ 388,688,449	$ 422,911,751
Capital assets, net	1,723,975,894	1,562,501,613
Other assets	89,703,749	111,657,377
Total assets	2,202,368,092	2,097,070,741
Deferred outflows of resources	39,374,498	42,729,191
Liabilities		
Current liabilities	152,329,516	169,780,652
Noncurrent liabilities	1,113,434,519	1,112,529,085
Total liabilities	1,265,764,035	1,282,309,737
Deferred inflows of resources	19,223,028	19,318,839
Net position		
Net investment in capital assets	747,989,745	665,682,329
Restricted	177,334,976	196,417,896
Unrestricted	31,430,806	(23,928,869)
Total net position	$ 956,755,527	$ 838,171,356

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

	2017	2016
Operating revenues		
Pledged	$ 479,285,323	$ 457,168,886
Other	89,224,771	89,231,634
Total operating revenues	568,510,094	546,400,520
Operating expenses	338,205,358	370,368,594
Operating income	230,304,736	176,031,926
Nonoperating revenues (expenses)		
Income from investments - pledged	284,612	5,035,681
Federal grant revenue	7,366,516	7,716,384
Interest expense	(21,448,380)	(26,132,947)
Other	(4,236,537)	(1,299,647)
Deficiency of nonoperating revenues over nonoperating expenses	(18,033,789)	(14,680,529)
Income before transfers	212,270,947	161,351,397
Net transfers	(93,686,776)	(95,580,135)
Change in net position	118,584,171	65,771,262
Net position - beginning of year	838,171,356	772,400,094
Net position - end of year	$ 956,755,527	$ 838,171,356

Condensed Statements of Cash Flows

	2017	2016
Net cash provided by (used in)		
Operating activities	$ 246,485,867	$ 224,131,361
Noncapital financing activities	(101,494,310)	(99,121,782)
Capital and related financing activities	(203,512,988)	66,428,822
Investing activities	(776,043)	(130,780,687)
Net increase (decrease) in cash and cash equivalents	(59,297,474)	60,657,714
Cash and cash equivalents - beginning of year	127,736,520	67,078,806
Cash and cash equivalents - end of year	$ 68,439,046	$ 127,736,520

(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 November 20, 2017, which is the date the financial statements were available to be issued.

(21) Reclassifications

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

REQUIRED SUPPLEMENTARY INFORMATION

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 95% of its national bridge inventory at a fair or better condition level. Condition assessments of eligible infrastructure assets are performed at least every three years.

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Structural Rating Numbers and Percentages for Bridges

	BCR Condition Rating	2017** Number	2017** Percentage	2016** Number	2016** Percentage	2015 Number	2015 Percentage
		Calendar Year Ended December 31,:					
Good	6 - 9	582	69.0	606	71.9	1,211	74.5
Fair	5	228	27.0	195	23.2	304	18.7
Poor	0 - 4	33	4.0	41	4.9	111	6.8
	Totals	843	100.0	842	100.0	1,626	100.0

Deck Rating Numbers and Percentages for Bridges

	OPC Condition Rating	2017 Square Feet	2017 Percentage	2016 Square Feet	2016 Percentage	2015 Square Feet	2015 Percentage
		Calendar Year Ended December 31,:					
Good	6 - 9	4,788,784	61.0	5,697,809	70.9	5,979,029	74.3
Fair	5	2,669,285	34.0	1,942,870	24.1	1,696,198	21.1
Poor	0 - 4	395,124	5.0	399,080	5.0	374,113	4.6
	Totals	7,853,193	100.0	8,039,759	100.0	8,049,340	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)*

	Fiscal Year Ended June 30,: 2017	2016	2015	2014	2013
Estimated	$ 246,928	$ 242,299	$ 241,900	$ 198,873	$ 185,399
Actual	297,364	281,554	291,630	234,800	233,810

* 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.

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Required Supplementary Information - DelDOT/Trust Fund Pension

Schedule of Proportionate Share of Net Pension Liability

Proportionate Share of Net Pension Liability	June 30, 2016	June 30, 2015	June 30, 2014
DelDOT/Trust Fund proportion of the net pension liability	3.5621 %	3.6502 %	3.8332 %
DelDOT/Trust Fund proportion of the net pension liability - dollar value	$ 53,679,225	$ 24,283,925	$ 14,114,288
DelDOT/Trust Fund covered employee payroll	$ 75,469,182	$ 72,908,127	$ 73,603,519
DelDOT/Trust Fund proportionate share of the net pension liability as a percentage of covered employee payroll	71.13 %	33.31 %	19.18 %
Contributions			
Contractually required contribution	$ 6,508,251	$ 6,508,133	$ 6,702,782
Contributions in relation to the contractually required contribution	6,508,251	6,508,133	6,702,782
Contribution deficiency	$ -	$ -	$ -
DelDOT/Trust Fund covered employee payroll	$ 75,469,182	$ 72,908,127	$ 73,603,519
Contribution as a percentage of covered employee payroll	8.62 %	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 - Statement of Changes in Net Pension Liability and Related Ratios - DTC Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total pension liability										
Service cost	$ 873	$ 843	$ 840							
Interest	1,724	1,612	1,483							
Changes of benefit terms	-	-	-							
Differences between expected and actual experience	(693)	(297)	-							
Benefit payments, including refunds of member contributions	(705)	(629)	(569)							
Net change in total pension liability	1,199	1,529	1,754							
Total pension liability - beginning	23,341	21,812	20,058							
Total pension liability - ending (a)	$ 24,540	$ 23,341	$ 21,812							
Plan fiduciary net position										
Contributions - employer	$ 1,104	$ 1,176	$ 1,158							
Contributions - members	81	57	30							
Net investment income	405	554	2,443	Information for FY2013 and earlier is not available.						
Benefit payments, including refunds of member contributions	(705)	(629)	(569)							
Administrative expense	(166)	(94)	(116)							
Net change in plan fiduciary net position	719	1,064	2,946							
Plan fiduciary net position - beginning	21,949	20,885	17,939							
Plan fiduciary net position - ending (b)	$ 22,668	$ 21,949	$ 20,885							
Net pension liability - ending (a) - (b)	$ 1,872	$ 1,392	$ 927							
Plan fiduciary net position as a percentage of total pension liability	92.37 %	94.04 %	95.75 %							
Covered-employee payroll	$ 13,142	$ 12,261	$ 12,099							
Net pension liability as a percentage of covered-employee payroll	14.24 %	11.35 %	7.66 %							
Expected average remaining service years of all participants	8.0	8.0	8.5							

Notes to Schedule

Benefit changes: None
Changes of assumptions: None

Required Supplementary Information - Statement of Changes in Net Pension Liability and Related Ratios - DART Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total pension liability										
Service cost	$ 2,048	$ 1,976	$ 1,766							
Interest	3,209	2,925	2,675							
Changes of benefit terms	197	1,473	1,030							
Differences between expected and actual experience	(217)	(112)	4							
Benefit payments, including refunds of member contributions	(2,411)	(2,134)	(2,103)							
Net change in total pension liability	2,826	4,128	3,372							
Total pension liability - beginning	44,983	40,855	37,483							
Total pension liability - ending (a)	$ 47,809	$ 44,983	$ 40,855							
Plan fiduciary net position										
Contributions - employer	$ 1,080	$ 1,253	$ 909							
Contributions - members	1,360	1,388	1,263							
Net investment income	2,550	(869)	2,605	Information for FY2013 and earlier is not available.						
Benefit payments, including refunds of member contributions	(2,411)	(2,134)	(2,103)							
Administrative expense	(94)	(100)	(133)							
Net change in plan fiduciary net position	2,485	(462)	2,541							
Plan fiduciary net position - beginning	41,574	42,036	39,495							
Plan fiduciary net position - ending (b)	$ 44,059	$ 41,574	$ 42,036							
Net pension liability - ending (a) - (b)	$ 3,750	$ 3,409	$ (1,181)							
Plan fiduciary net position as a percentage of total pension liability	92.16 %	92.42 %	102.89 %							
Covered-employee payroll	$ 27,472	$ 28,203	$ 27,627							
Net pension liability as a percentage of covered-employee payroll	13.65 %	12.09 %	(4.27)%							
Expected average remaining service years of all participants	8.8	8.8	8.3							

Notes to Schedule
Benefit changes: None
Changes of assumptions: None

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Schedule of Contributions

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
DTC Plan, as of June 30,										
Actuarially determined contribution	$ 1,104	$ 1,176	$ 1,156	Information for FY2013 and earlier is not available.						
Contributions in relation to the actuarially determined contribution	1,104	1,176	1,158							
Contribution deficiency (excess)	$ -	$ -	$ (2)							
Covered-employee payroll	$ 13,142	$ 12,261	$ 12,371							
Contributions as a percentage of covered-employee payroll	8.40 %	9.59 %	9.36 %							
DART Plan, as of December 31,										
Actuarially determined contribution	$ 1,012	$ 857	$ 635	$ 773	$ 715	$ 598	$ 611	$ 859	$ 683	Information for FY2007 is not available.
Contributions in relation to the actuarially determined contribution	1,079	1,253	908	1,250	1,080	1,074	1,082	1,063	996	
Contribution deficiency (excess)	$ (67)	$ (396)	$ (273)	$ (477)	$ (365)	$ (476)	$ (471)	$ (204)	$ (313)	
Covered-employee payroll	$ 27,472	$ 28,203	$ 25,452	$ 25,579	$ 22,985	$ 22,847	$ 22,675	$ 22,072	$ 18,689	
Contributions as a percentage of covered-employee payroll	3.93 %	4.44 %	3.57 %	4.89 %	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 2016:	*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	Range from 15-19 years	15 years rolling
Asset valuation method	Five-year market smoothed	Five-year market smoothed
Inflation	2.0%	2.0%
Salary increases	2.5%, including inflation	4.0%
Investment rate of return	7.5%, net of pension plan investment expense, including inflation	7.0%
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)
07/01/2016	$ 2,506,000	$ 125,906,000	$ (123,400,000)	1.99 %	$ 47,221,231	(261.32)%
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)

SUPPLEMENTARY INFORMATION

Delaware Transportation Authority
Transportation Trust Fund
Statement of Net Position in Accordance with Trust Agreement
June 30, 2017
(with comparative totals for June 30, 2016)

	Operations	Trust Holdings	Debt Reserve	(Memorandum Only) 2017	(Memorandum Only) 2016
Current assets					
Cash and cash equivalents					
Unrestricted	$ 16,184,101	$ 32,914	$ -	$ 16,217,015	$ 72,249,980
Restricted	1,544	26,959,880	14,982	26,976,406	18,003,162
Pooled cash and investments	2,760,134	-	-	2,760,134	1,879,059
Investments - at fair value					
Unrestricted	70,320,248	95,069,266	-	165,389,514	21,025,615
Restricted	251,623	111,531,609	63,770	111,847,002	244,754,508
Accounts receivable					
Trade	11,908,811	-	-	11,908,811	10,821,644
Federal grants	203,597	-	-	203,597	320,785
Interest	722,013	-	-	722,013	837,426
Due from State General Fund	11,150,000	-	-	11,150,000	12,000,000
Total current assets	113,502,071	233,593,669	78,752	347,174,492	381,892,179
Noncurrent assets					
Capital assets, not depreciable					
Land	-	157,765,959	-	157,765,959	157,111,012
Infrastructure	-	1,416,864,355	-	1,416,864,355	1,258,597,309
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	8,036,932
Total capital assets	-	1,604,767,246	-	1,604,767,246	1,445,845,253
Less: accumulated depreciation	-	4,559,044	-	4,559,044	4,370,544
Capital assets, net	-	1,600,208,202	-	1,600,208,202	1,441,474,709
Investments - at fair value, net of current portion					
Unrestricted	303,648	-	-	303,648	1,540,498
Restricted	329,810	8,424,400	80,045,691	88,799,901	110,116,879
Total noncurrent assets	633,458	1,608,632,602	80,045,691	1,689,311,751	1,553,132,086
Total assets	114,135,529	1,842,226,271	80,124,443	2,036,486,243	1,935,024,265
Deferred outflows of resources	-	33,277,520	-	33,277,520	36,409,367

(Continued)

Delaware Transportation Authority
Transportation Trust Fund
Statement of Net Position in Accordance with Trust Agreement
June 30, 2017
(with comparative totals for June 30, 2016)

	Operations	Trust Holdings	Debt Reserve	(Memorandum Only) 2017	2016
Current liabilities					
Accounts payable and other accrued expenses	$ 21,172,335	$ -	$ -	$ 21,172,335	$ 32,774,599
Escrow deposits	-	2,760,134	-	2,760,134	1,879,059
Customer toll deposits	13,873,166	-	-	13,873,166	15,219,424
Interest payable	-	16,622,632	-	16,622,632	17,637,903
Revenue bonds payable	-	69,880,000	-	69,880,000	70,595,000
Bond issue premium - net of accumulated amortization	-	16,375,072	-	16,375,072	16,166,236
Total current liabilities	35,045,501	105,637,838	-	140,683,339	154,272,221
Noncurrent liabilities					
Revenue bonds payable - net of current portion	-	912,985,000	-	912,985,000	915,700,000
Bond issue premium - net of accumulated amortization and current portion	-	62,815,570	-	62,815,570	70,904,391
Total noncurrent liabilities	-	975,800,570	-	975,800,570	986,604,391
Total liabilities	35,045,501	1,081,438,408	-	1,116,483,909	1,140,876,612
Deferred inflows of resources	-	17,680,000	-	17,680,000	18,311,429
Net position					
Net investment in capital assets	-	624,222,053	-	624,222,053	544,655,425
Restricted	582,977	96,627,556	80,124,443	177,334,976	196,417,896
Unrestricted	78,507,051	55,535,774	-	134,042,825	71,172,270
Total net position	$ 79,090,028	$ 776,385,383	$ 80,124,443	$ 935,599,854	$ 812,245,591

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, 2017
(with comparative totals for the Fiscal Year Ended June 30, 2016)

	Operations	Trust Holdings	Debt Reserve	(Memorandum Only) 2017	(Memorandum Only) 2016
Operating revenues					
Pledged revenue					
Turnpike revenue	$ 136,158,518	$ -	$ -	$ 136,158,518	$ 132,517,327
Motor fuel tax revenue	129,645,019	-	-	129,645,019	124,573,140
Motor vehicle document fee revenue	116,318,908	-	-	116,318,908	107,765,732
Motor vehicle registration fee revenue	54,462,766	-	-	54,462,766	52,339,415
Other motor vehicle revenue	40,213,502	-	-	40,213,502	38,025,381
International Fuel Tax Agreement revenue	2,486,610	-	-	2,486,610	1,947,891
Total pledged revenue	479,285,323	-	-	479,285,323	457,168,886
Toll revenue - Delaware SR-1	61,266,833	-	-	61,266,833	59,813,890
Miscellaneous	7,411,484	-	-	7,411,484	8,590,907
Total operating revenues	547,963,640	-	-	547,963,640	525,573,683
Operating expenses					
Road maintenance, preservation, and repairs	838,836	71,623,887	-	72,462,723	103,415,810
Professional fees	45,206,389	57,639,044	-	102,845,433	103,347,612
Materials, supplies, and other	12,086,707	7,376,434	-	19,463,141	24,097,838
Depreciation	-	188,500	-	188,500	188,500
Total operating expenses	58,131,932	136,827,865	-	194,959,797	231,049,760
Operating income (loss)	489,831,708	(136,827,865)	-	353,003,843	294,523,923
Nonoperating revenues (expenses)					
Income from investments - pledged	170,103	721,241	(606,732)	284,612	5,035,681
Bad debt recovery, net of expenses	-	998,927	-	998,927	960,395
Federal grant revenue	-	(117,188)	-	(117,188)	44,494
Interest expense	-	(21,448,380)	-	(21,448,380)	(26,132,947)
Service concession arrangement	-	631,429	-	631,429	631,428
Excess (deficiency) of nonoperating revenues over nonoperating expenses	170,103	(19,213,971)	(606,732)	(19,650,600)	(19,460,949)
Income (loss) before transfers	490,001,811	(156,041,836)	(606,732)	333,353,243	275,062,974

(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, 2017
(with comparative totals for the Fiscal Year Ended June 30, 2016)

				(Memorandum Only)	
	Operations	**Trust Holdings**	**Debt Reserve**	**2017**	**2016**
Net transfers per agreement	$ (254,250,834)	$ 253,644,102	$ 606,732	$ -	$ -
Transfers to other governmental agencies	(5,627,170)	-	-	(5,627,170)	(5,125,703)
Transfers to State General Fund	(5,000,000)	-	-	(5,000,000)	(5,000,000)
Transfers from State General Fund	5,000,000	4,419,086	-	9,419,086	14,168,391
Transfers to DTC	(87,827,600)	-	-	(87,827,600)	(85,420,600)
Transfers to DelDOT	(120,963,296)	-	-	(120,963,296)	(117,806,021)
Change in fund net position	21,332,911	102,021,352	-	123,354,263	75,879,041
Fund net position - beginning of year	57,757,117	674,364,031	80,124,443	812,245,591	736,366,550
Fund net position - end of year	$ 79,090,028	$ 776,385,383	$ 80,124,443	$ 935,599,854	$ 812,245,591

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Revenue Bonds Outstanding
June 30, 2017

Principal	2007 A Series	2008 A Series	2008 B Series	2009 A Series	2009 B Series	2010 B Series	2012 Series	2014 Series	2016 Series	2017 Series	Total Senior Bond Series	GARVEE 2010 Series	US 301 Project 2015 Series	Totals
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	-	2,215,000	5,215,000	4,945,000	4,830,000	-	38,800,000	4,500,000	-	6,280,000	66,785,000	7,985,000	-	74,770,000
FY20	-	-	5,480,000	5,195,000	5,485,000	5,070,000	21,555,000	14,965,000	2,075,000	7,240,000	67,065,000	8,375,000	-	75,440,000
FY21	-	-	-	-	-	5,200,000	12,715,000	10,650,000	12,825,000	23,720,000	65,110,000	8,785,000	3,220,000	77,115,000
FY22	-	-	-	-	-	5,340,000	23,100,000	12,330,000	13,420,000	8,300,000	62,490,000	9,210,000	5,225,000	76,925,000
FY23	-	-	-	-	-	5,495,000	30,280,000	8,060,000	14,085,000	2,770,000	60,690,000	9,625,000	5,675,000	75,990,000
FY24	-	-	-	-	-	5,655,000	24,800,000	8,465,000	14,745,000	2,910,000	56,575,000	10,145,000	-	66,720,000
FY25	-	-	-	-	-	5,830,000	19,350,000	195,000	22,725,000	3,055,000	51,155,000	10,555,000	-	61,710,000
FY26	-	-	-	-	-	6,015,000	-	12,045,000	23,770,000	3,205,000	45,035,000	-	-	45,035,000
FY27	-	-	-	-	-	6,215,000	-	-	24,870,000	3,365,000	34,450,000	-	-	34,450,000
FY28	-	-	-	-	-	6,450,000	-	-	17,930,000	3,535,000	27,915,000	-	-	27,915,000
FY29	-	-	-	-	-	6,695,000	-	-	18,815,000	3,715,000	29,225,000	-	-	29,225,000
FY30	-	-	-	-	-	6,945,000	-	-	16,215,000	3,860,000	27,020,000	-	-	27,020,000
FY31	-	-	-	-	-	7,210,000	-	-	-	3,955,000	11,165,000	-	-	11,165,000
FY32	-	-	-	-	-	-	-	-	-	4,055,000	4,055,000	-	1,285,000	5,340,000
FY33	-	-	-	-	-	-	-	-	-	4,180,000	4,180,000	-	1,450,000	5,630,000
FY34	-	-	-	-	-	-	-	-	-	4,305,000	4,305,000	-	2,450,000	6,755,000
FY35	-	-	-	-	-	-	-	-	-	4,435,000	4,435,000	-	3,200,000	7,635,000
FY36	-	-	-	-	-	-	-	-	-	4,565,000	4,565,000	-	3,500,000	8,065,000
FY37	-	-	-	-	-	-	-	-	-	4,705,000	4,705,000	-	4,000,000	8,705,000
FY38	-	-	-	-	-	-	-	-	-	4,845,000	4,845,000	-	2,250,000	7,095,000
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
	$ 5,220,000	$ 4,325,000	$ 15,665,000	$ 14,850,000	$ 20,290,000	$ 72,120,000	$ 196,200,000	$ 80,880,000	$ 181,475,000	$ 107,000,000	$ 698,025,000	$ 72,305,000	$ 212,535,000	$ 982,865,000

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Revenue Bond Coverage
June 30, 2017

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***
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
2017	479,570	70,595	44,581	115,176	4.16

* 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, 2017, and the related notes to financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 20, 2017.

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 2017-1 and 2017-2 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 deficiency described as Finding 2017-3 in the accompanying Schedule of Findings to be a significant deficiency.

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

November 20, 2017
Newark, Delaware

State of Delaware
Department of Transportation
Schedule of Findings
June 30, 2017

Finding 2017-1: Division of Motor Vehicle (DMV) Revenues (Material Weakness)
Prior Year Finding: 2016-2

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 are investigated. The completed Daily Cash Reports are provided to the Accounting Specialist who reconciles the Daily Cash Reports to the MVALS report for each location. The Accounting Specialist ensures that any shortages/overages 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 $1.8 million in "MVALS Adjustments". These amounts represent unreconciled variances between the MVALS and bank statements. A breakout of the variances by month is detailed below:

Month	MVALS Adjustments
July 2016	$ (570,790)
August 2016	966,705
September 2016	281,273
October 2016	268,614
November 2016	247,108
December 2016	277,642
January 2017	327,514
February 2017	-
March 2017	-
April 2017	-
May 2017	-
June 2017	-
Total	$ 1,798,066

In addition, we noted the following regarding the MVALS:

- Prior to January 2017, there were 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 could not pinpoint the cause of the “MVALS Adjustments” noted above. Subsequent to January 2017, management has determined the cause of the “MVALS Adjustments” resulting in no unexplained reconciling items for the remainder of the year.

Effect

Without being able to effectively explain all reconciling items included in DMV revenue reconciliations, misstatements to the financial statements prior to January 2017 could go undetected.

Recommendation

We recommend that the Department continue to follow the process implemented during the fiscal year to correct the reporting issues. 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

The Department implemented a new reconciliation process during the audit year and will continue to review and make refinements to the process as necessary to comply with internal policies and procedures.

Finding 2017-2: Management Review Process (Material Weakness)
Prior Year Finding: 2016-4

Background

DTC's 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.

- There was no evidence that a monthly or year-end reconciliation of the accounts payable subledger (Open Payables Report) to the general ledger was completed for Fiscal Year 2017. We did not receive the Open Payables Report for audit on a timely basis. The report total did not reconcile to the general ledger by $308,569; DTC could not explain the cause of the variance.

- The June 30, 2017 payroll reconciliation was not provided in a timely manner. Reconciliation and review of reconciliations of significant accounts, such as payroll, should be performed timely to ensure that all expenses and related liabilities are recorded in the proper period.

- During audit procedures, management recorded late adjustments to operating revenues, operating expenses, assets, liabilities, and unrestricted net position. Specific accounts included trade accounts receivable, inventory, compensated absences, and miscellaneous revenue. Reconciliation and review of reconciliations should be performed timely in order to ensure appropriate reporting of monthly, quarterly, and annual financial statements.

Criteria

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

These findings, in relation to a few items, were due to staff turnover and new staff coming up to speed on DTC's processes. As a result, management had to prepare documents while simultaneously training staff and perform tasks normally assigned to subordinate personnel. Therefore, management was not able to effectively conduct secondary reviews as they had to prepare the work and ensure transactions are recorded and reported in a timely manner. Management has hired, and is in the process of hiring, additional qualified and experienced personnel to implement an effective management review process and ensure transactions are processed timely. In light of these issues, DTC management accepts SCG's recommendation and has taken the necessary actions to ensure they are implemented. DTC is committed to ensuring all transactions are accounted for, reconciled, and accurately reflected in the financial statements.

Finding 2017-3: Deferred Passenger Revenue (Significant Deficiency)

Background

DTC offers customers pre-purchased stored value cards that can be used to ride any DART fixed route bus in Delaware at a 20% to 40% discount off the regular fares. These cards can be purchased at various locations, or via phone, fax, mail, or online. Revenues from these DART cards are recognized at the point of sale.

Condition

During testing of these DART cards, it was noted that management does not have a process and control in place to determine the amount of revenue earned on the pre-paid cards that had not been redeemed at the Fiscal Year Ended June 30, 2017.

State of Delaware
Department of Transportation
Schedule of Findings
June 30, 2017

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 are an integral part of any internal control structure.

Cause

There is no formal process or guidelines in place to determine the amount deemed as unearned revenue from DART card sales.

Effect

Although the amount is not deemed to be material to the financial statements, the lack of a formal process can result in inaccurate reporting of passenger revenues.

Recommendation

We recommend that DTC implement a formal process and guidelines to determine the amount of passenger revenue deemed unearned at Fiscal Year End and whether it is material to report in the annual financial statements.

View of Responsible Officials

DTC has a regular monthly process that records and assesses what we may deem as unearned revenue from the sale of its DART cards. However, as a result of the audit, our practice may not be the most accurate methodology for determining our unearned revenue. DTC will reexamine its data calculations and processes to ensure we are accurately reporting, or not reporting based on immateriality thresholds, unearned revenue at Fiscal Year End.