STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

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STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2010 and 2009

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2010.

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

- The Department successfully completed a Grant Anticipation Revenue Vehicle (GARVEE) bond issue during the fiscal year, raising $125.0 million (including premium and net of issuance costs) to assist in funding the US 301 bypass project. The funding will provide for the completion of final design and right-of-way activities for this project.
- Operating revenues marginally increased by $0.9 million to $426.9 million during the fiscal year ended June 30, 2010, primarily from passenger fares and miscellaneous revenues.
- The Department has been allocated $140.7 million in federal American Recovery and Reinvestment Act (ARRA) apportionments, and has obligated $138.0 million across 40 projects to assist with our capital program as of June 30, 2010.
- Total capital assets (net of depreciation) increased $75.0 million to $3.9 billion during fiscal 2010.

Overview of the Financial Statements

The financial section of this annual report consists of five parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) notes to the financial statements, (4) required supplementary information, and (5) additional 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 additional information that further explains and supports 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 (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in fund net assets. All assets and liabilities associated with the operation of the Department are included in the balance sheets.

Financial Analysis of the Department

Balance Sheets

The Department's total assets were $4,373.2 million at June 30, 2010, compared to $4,287.6 million at June 30, 2009, and $4,091.1 million at June 30, 2008. Total liabilities were $1,403.5 million at June 30, 2010, compared to $1,338.1 million at June 30, 2009, and $1,141.2 million at June 30, 2008. Net assets at June 30, 2010 were $2,969.7 million, compared to $2,949.5 million at June 30, 2009, and $2,949.9 million at June 30, 2008.

Department of Transportation's Net Assets

		2010	2009	2008	Change 2010 – 2009	Change 2009 – 2008
			(In millions of dollars)			
Current assets	$	409.6	381.3	279.0	28.3	102.3
Capital assets		3,899.5	3,824.5	3,739.0	75.0	85.5
Other noncurrent assets		64.1	81.8	73.1	(17.7)	8.7
Total assets	$	4,373.2	4,287.6	4,091.1	85.6	196.5
Current liabilities	$	166.4	170.7	160.2	(4.3)	10.5
Noncurrent liabilities		1,237.1	1,167.4	981.0	69.7	186.4
Total liabilities	$	1,403.5	1,338.1	1,141.2	65.4	196.9
Net assets:						
Invested in capital assets, net of debt	$	2,803.6	2,727.6	2,731.9	76.0	(4.3)
Restricted		162.0	165.7	150.8	(3.7)	14.9
Unrestricted		4.1	56.2	67.2	(52.1)	(11.0)
Total net assets	$	2,969.7	2,949.5	2,949.9	20.2	(0.4)

The increase in current assets for fiscal years 2010 and 2009 is attributed to unspent bond proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bond issuance and the Series 2009A bond issuance, respectively. Both of these resulted in larger investment balances. The decrease in other noncurrent assets for fiscal year 2010 is primarily due to recording a loss of $20.3 million for the Department's loan to the Diamond State Port Corporation. The total liability increase for fiscal years 2010 and 2009 is primarily due to an increase in revenue bonds payable and postemployment benefits payable.

(Continued)

Change in Net Assets

The Department's net assets at June 30, 2010 were $2,969.7 million, compared to $2,949.5 million at June 30, 2009, and $2,949.9 million at June 30, 2008. Operating revenues were $426.9 million, $426.0 million, and $428.6 million in fiscal years 2010, 2009, and 2008, respectively. Total operating expenses were $582.0 million, $561.7 million, and $496.9 million in fiscal years 2010, 2009, and 2008, respectively.

Change in the Department of Transportation's Net Assets

		2010	2009	2008	Change 2010 – 2009	Change 2009 – 2008
				(In millions of dollars)		
Operating revenues	$	426.9	426.0	428.6	0.9	(2.6)
Operating expenses:						
Operating expenses		559.0	540.4	479.8	18.6	60.6
Depreciation		23.0	21.3	17.1	1.7	4.2
Total operating expenses		582.0	561.7	496.9	20.3	64.8
Operating loss		(155.1)	(135.7)	(68.3)	(19.4)	(67.4)
Nonoperating revenues, net		176.6	158.7	131.6	17.9	27.1
Income (loss) before transfers		21.5	23.0	63.3	(1.5)	(40.3)
Transfers, net		(1.3)	(20.6)	(9.3)	19.3	(11.3)
Change in fund net assets		20.2	2.4	54.0	17.8	(51.6)
Total net assets – beginning of year, as restated		2,949.5	2,947.1	2,895.9	2.4	51.2
Total net assets – end of year	$	2,969.7	2,949.5	2,949.9	20.2	(0.4)

The decrease in operating revenues from 2008 to 2009 is primarily attributed to a decrease in motor vehicle and related revenues as a result of declining vehicle sales and fuel consumption. This decrease was partially offset by increased toll revenues on both the Turnpike and SR-1.

The increase in total operating expenses from 2009 to 2010 was primarily due to increased spending on professional fees and consulting for design and engineering services. The increase in total operating expenses from 2008 to 2009 was primarily due to increased spending on maintenance and preservation of existing infrastructure.

Nonoperating revenues increased for both fiscal years 2009 and 2010, primarily as a result of the receipt of additional federal grants due to the timing of completion of projects eligible for federal funding and funding received under the American Recovery and Reinvestment Act. These increases were partially offset by a decline in investment earnings related to overall economic conditions. Additionally, in fiscal year 2010, the Department recorded a loss of $20.3 million for its loan to the Diamond State Port Corporation.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010, the Department had invested $4,037.9 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2010 totaled $3,899.5 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of $75.0 million over June 30, 2009. The most significant contributor to this increase was the US 301 toll road project.

The Department is using the "modified approach" for determining condition assessments 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 assessments.

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

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

The condition of the bridges structures is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's (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 4 for substandard bridges to 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 5 rating 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. Currently, bridge condition assessments are conducted every two years. Historically, road condition assessments were conducted every year. Recent changes to the road condition vendor contract have resulted in the inability to provide infrastructure ratings for fiscal year 2010. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period.

Of the Department's 1,556 bridge structures that were rated in 2009, 73.5% received a good or better BCR rating, 19.0% were rated fair, and 7.5% received a substandard rating. Of the 7,330,395 square feet of bridge deck that was rated, 92.8% or 6,800,531 square feet received an OPC condition rating of good or better, 6.9% received a fair rating, and 0.3% received a substandard deck rating. In 2008, 4,447 centerline miles were rated; 90.1% received a fair or better OPC rating and 9.9% received a poor rating.

The estimate to maintain and preserve the Department's infrastructure was $102.2 million, $208.8 million, and $197.3 million for 2010, 2009, and 2008, respectively. The actual expenditures were $336.2 million, $308.7 million, and $271.3 million for 2010, 2009, and 2008, respectively. The estimated expenditures represent annual Bond Bill authorizations; and the actual expenditures represent the current year spending, which includes cumulative authorizations.

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 Delaware Transportation Authority (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, 2010, the Authority had $1,183.4 million in revenue bonds outstanding, a 3.4% increase from June 30, 2009. During fiscal year 2010, the Authority issued GARVEE Bonds, 2010 Series, in the amount of $113.5 million, resulting in new money of $125.0 million (including premium and net of issuance costs). The funds will primarily be used for the completion of the design and right-of-way acquisition for the US Route 301 project. The GARVEE bonds are limited obligations of the Authority payable solely from certain pledged federal aid available to the State. Of the 11 outstanding senior bond issues, all insured bonds are rated AAA by S&P and Aaa by Moody's; and the uninsured bonds are rated AA+ and Aa2, respectively. In April 2010, Moody's recalibrated their credit rating for Delaware Transportation Authority's Senior Revenue Bonds and upgraded their credit rating to Aa2 from Aa3. This rating action was part of Moody's recalibration of US municipal finance ratings to coincide with its corporate rating scale. The GARVEE bonds are uninsured and are rated AA and Aa2 by S&P and Moody's, 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 during the current economic downturn.

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 Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.

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Independent Auditors' Report

Delaware Department of Transportation
Dover, Delaware

We have audited the accompanying balance sheets of the State of Delaware Department of Transportation (Department of Transportation), which is an Enterprise Fund of the State of Delaware, as of June 30, 2010 and 2009, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Department of Transportation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in note 1 to the financial statements, the financial statements present only the State of Delaware Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Delaware, as of June 30, 2010 and 2009, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Delaware Department of Transportation as of June 30, 2010 and 2009, and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010 on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and required supplementary information for governments that use the modified approach for infrastructure assets on pages 1 through 5 and 45 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Transportation's financial statements. The additional information presented in the schedule of revenue bond coverage on page 47 is presented for purposes of additional analysis and is not a required part of the financial statements.

KPMG LLP

November 29, 2010

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Balance Sheets

June 30, 2010 and 2009

	2010	2009
Current assets:		
Cash and cash equivalents:		
Unrestricted	$ 40,826,299	44,245,865
Restricted	2,539,562	5,185,141
Investments – at fair value:		
Unrestricted	87,592,054	168,277,010
Restricted	234,806,892	106,433,402
Accrued interest receivable	487,572	768,122
Accounts receivable:		
Trade	11,287,097	13,594,239
Federal grant	15,227,084	25,354,576
Loan receivable	—	1,294,686
Inventory	16,006,600	14,810,106
Bond issuance costs – net of accumulated amortization	226,029	123,137
Escrow insurance deposits	311,537	985,562
Prepaid expenses	281,854	253,564
Total current assets	409,592,580	381,325,410
Noncurrent assets:		
Capital assets, not depreciable:		
Land	276,760,943	249,775,187
Infrastructure	3,432,677,271	3,385,364,172
Capital assets, depreciable:		
Buildings and improvements	91,065,392	89,563,398
Fixtures and equipment	237,416,409	220,629,956
	4,037,920,015	3,945,332,713
Less accumulated depreciation	138,453,475	120,855,679
Capital assets	3,899,466,540	3,824,477,034
Investments – at fair value:		
Unrestricted	10,157,658	1,510,320
Restricted	49,798,310	56,927,538
Bond issuance costs – net of accumulated amortization and current portion	2,101,043	1,404,835
Loans receivable	—	20,297,835
Prepaid pension	2,058,306	1,669,968
Total noncurrent assets	3,963,581,857	3,906,287,530
Total assets	$ 4,373,174,437	4,287,612,940

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STATE OF DELAWARE
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Balance Sheets

June 30, 2010 and 2009

		2010	2009
Current liabilities:			
Accounts payable and other accrued expenses	$	28,312,309	31,258,537
Accrued payroll		10,165,704	10,052,377
Compensated absences payable		4,335,979	4,362,828
Customer toll deposits		7,330,574	7,354,941
Pollution remediation obligations		2,021,500	50,000
Escrow deposit		2,499,285	5,141,249
Insurance loss reserve		3,242,448	1,594,323
Deferred revenue		2,983,466	2,983,466
General obligation bonds payable		663,330	655,587
Revenue bonds payable – net of deferred amounts on refunding		71,489,182	74,089,970
Bond issue premium – net of accumulated amortization		7,548,149	7,775,660
Interest payable		25,800,022	25,387,581
Total current liabilities		166,391,948	170,706,519
Noncurrent liabilities:			
Compensated absences – net of current portion		9,824,362	9,982,842
Insurance loss reserve – net of current portion		3,177,552	3,749,677
Postemployment benefits payable		79,697,691	53,376,638
Pollution remediation obligations – net of current portion		772,700	2,815,000
General obligation bonds payable – net of current portion		787,984	1,451,314
Revenue bonds payable – net of deferred amounts on refunding and current portion		1,110,523,675	1,068,522,855
Bond issue premium – net of accumulated amortization and current portion		32,296,132	27,494,400
Total noncurrent liabilities		1,237,080,096	1,167,392,726
Total liabilities		1,403,472,044	1,338,099,245
Net assets:			
Invested in capital assets – net of related debt		2,803,631,663	2,727,656,538
Restricted		161,999,283	165,662,648
Unrestricted		4,071,447	56,194,509
Total net assets		2,969,702,393	2,949,513,695
Total liabilities and net assets	$	4,373,174,437	4,287,612,940

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Revenues, Expenses, and Change in Fund Net Assets

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Pledged revenue:		
Turnpike revenues	$ 119,398,945	121,225,273
Motor vehicle and related revenue	241,432,581	241,501,367
Total pledged revenue	360,831,526	362,726,640
Toll revenue – Delaware SR-1	45,502,245	44,496,240
Passenger fares	13,474,002	12,802,384
Miscellaneous	7,116,242	6,020,571
Total operating revenues	426,924,015	426,045,835
Operating expenses:		
Maintenance, preservation, and repairs	197,538,182	194,907,072
Occupancy expenses	10,639,372	11,942,923
Office expense	6,628,960	6,222,051
Payroll expense	146,357,702	149,199,683
Professional fees	113,727,393	96,603,602
Supplies and other	18,667,142	17,513,940
Vehicle operations	65,480,635	64,064,431
Depreciation	23,051,664	21,271,627
Total operating expenses	582,091,050	561,725,329
Operating loss	(155,167,035)	(135,679,494)
Nonoperating revenues (expenses):		
Pledged revenue – income from investments	2,302,349	4,672,516
Income from investments	118,247	232,690
Net increase in the fair value of investments	563,456	962,903
Loss on loan receivable	(20,297,835)	—
Federal grant revenue	239,276,408	194,507,782
Grant expenses	(1,000,368)	(1,288,259)
Gain on asset disposal	(414,732)	235,132
Interest expense	(43,920,676)	(40,571,359)
Excess of nonoperating revenues over nonoperating expenses	176,626,849	158,751,405
Income before transfers	21,459,814	23,071,911
Transfers to State General Fund	(3,738,539)	(21,163,964)
Transfers to other state agencies	(644,179)	(2,634,345)
Transfers from State General Fund	3,111,602	3,167,438
Change in fund net assets	20,188,698	2,441,040
Total fund net assets – beginning of year	2,949,513,695	2,947,072,655
Total fund net assets – end of year	$ 2,969,702,393	2,949,513,695

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Operating receipts	$ 427,368,721	423,636,753
Payments to suppliers	(413,427,493)	(383,102,105)
Payments to employees	(120,496,989)	(120,695,964)
Insurance claims paid	(5,086,334)	(2,217,845)
Other receipts	1,862,436	1,780,741
Net cash used in operating activities	(109,779,659)	(80,598,420)
Cash flows from noncapital financing activities:		
Proceeds from State General Fund	3,111,602	3,167,438
Transfers to State General Fund	(3,738,539)	(21,163,964)
Transfers to other state agencies	(644,179)	(2,634,345)
Net cash used in noncapital financing activities	(1,271,116)	(20,630,871)
Cash flows from capital and related financing activities:		
Payments of revenue bond principal	(74,380,000)	(73,510,000)
Proceeds from revenue bond sale	113,490,000	223,190,000
Payments of general obligation bond principal	(655,587)	(676,105)
Premium from revenue bond sale	12,455,754	14,070,933
Proceeds from capital grants	248,403,532	188,451,386
Bond issuance costs from revenue bond sale	(926,913)	(1,580,719)
Acquisition of capital assets	(99,276,779)	(108,924,636)
Proceeds from sale of land and equipment	820,877	2,392,262
Payments of interest	(50,971,923)	(43,821,441)
Net cash provided by capital and related financing activities	148,958,961	199,591,680
Cash flows from investing activities:		
Purchase of investments	(3,622,350,856)	(2,695,511,904)
Proceeds from sale of investments	3,573,707,668	2,594,977,223
Repayment on loan receivable	1,294,686	1,902,349
Escrow insurance deposits	674,025	(24,339)
Interest received	2,701,146	4,885,996
Net cash used in investing activities	(43,973,331)	(93,770,675)
Net increase (decrease) in cash and cash equivalents	(6,065,145)	4,591,714
Cash and cash equivalents – beginning of year	49,431,006	44,839,292
Cash and cash equivalents – end of year	$ 43,365,861	49,431,006

(Continued)

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Reconciliation of operating loss to net cash used in operating activities:			
Net operating loss	$	(155,167,035)	(135,679,494)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation		23,051,664	21,271,627
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable		2,307,142	(598,382)
(Increase) decrease in inventory		(1,196,494)	284,110
(Increase) decrease in prepaid expenses		(28,290)	93,942
Increase in prepaid pension		(388,338)	(223,041)
Decrease in accounts payable and other accrued expenses		(2,946,228)	(171,573)
Increase (decrease) in accrued payroll and related expenses		(72,002)	1,047,366
Decrease in deferred revenue		—	(29,959)
Increase (decrease) in other accrued expenses		(1,590,331)	5,727,590
Decrease in pollution remediation obligation		(70,800)	—
Increase in postemployment benefits		26,321,053	27,679,394
Net cash used in operating activities	$	(109,779,659)	(80,598,420)
Supplemental disclosures of noncash investing and capital and related financing activities:			
Interest capitalized on Diamond State Port Corporation loan	$	—	67,267
Loss on Diamond State Port Corporation loan		20,297,835	—

See accompanying notes to financial statements.

(1) Organization

The Delaware Department of Transportation (the Department) is an agency 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 Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC).

The Trust Fund was created by the State, within 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, both of which the Authority owns and operates. 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 bond holders 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 corporation of the Authority. DTC is authorized to operate the public transportation system within the State.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Department 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.

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 balance sheets.

(c) Allowance for Doubtful Accounts

Accounts receivable are expected to be fully collectible at June 30, 2010 and 2009, 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 weighted average method.

(e) Investments

Investments are recorded at their fair value.

(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) Financial Accounting Standards Board (FASB) Pronouncements

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

(h) Capital Assets

Capital assets, which include land, buildings, improvements, fixtures, equipment, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the enterprise fund 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 to capitalize all buildings, land, and land improvements, regardless of cost, and to capitalize 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, 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 State uses the "modified approach" to account for roads and bridges, as provided by Governmental Accounting Standards Board (GASB) No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: (1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, (2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and (3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

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

Buildings, improvements, fixtures, and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Years
Assets:	
Buildings and improvements	5 – 40
Fixtures and equipment	3 – 40

(i) 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.

(j) 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 $7,753,720 and $7,112,690 of reductions of interest expense in 2010 and 2009, respectively.

(k) Revenues and Expenses

The Department defines nonoperating revenues as federal grant revenue and investment income. 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.

(l) New Accounting Pronouncements

The Department adopted the provisions of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (GASB 51) and GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53), for the year ended June 30, 2010. Retroactive application of both standards is required, if practical, for all periods presented, with certain exceptions as discussed below

(i) Intangible Assets

GASB 51 establishes a framework for the recognition and measurement of intangible assets, including easements and computer software for which an exception for retroactive application has been granted. The Department routinely makes expenditures related to the purchase of land easements and has historically capitalized such expenditures and continued to do so in the current year, which is in accordance with GASB 51.

(ii) Derivative Instruments

GASB 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the financial statements. Application of the statement is not required for immaterial items. The Department does not have any derivative instruments. There was no impact of the implementation of GASB 53 on the financial statements as of and for the year ended June 30, 2010.

(3) Cash and Investments

(a) Cash Management Policy and Investment Guidelines

The policy for the investment of Department funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Department. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Department are categorized as "Authority

Accounts." Investments of the Department are further restricted to "Qualified Investments" as defined in the Trust Agreement.

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2010 and 2009, investments of the Department are primarily in U.S. government securities, U.S. government agency securities, and commercial paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Agreement.

The Policy is available on the Internet at www.state.de.us/treasure.

(b) Custodial Credit Risk

Deposits

The carrying amounts of the Department's deposits at June 30, 2010 and 2009 were $43,365,861 and $49,431,006, respectively, and the bank balances were $46,154,235 and $47,084,135, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, $36,758,591 and $38,567,618 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2010 and 2009, respectively. The remaining bank balances of $9,395,644 and $8,516,517 were neither insured nor collateralized at June 30, 2010 and 2009, respectively.

As of June 30, 2010 and 2009, the Department had part of its cash and cash equivalents of $4,040,756 and $8,319,427, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State investment pool and internal investment pool are specifically identified for the Department, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

Investments

Investments of the Department are stated at fair value. At June 30, 2010 and 2009, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name.

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 ten 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, 2010.

		Investment maturities (in years)		
	Fair value	Less than 1	1 – 5	6 – 10
Investment type:				
U.S. government securities	$ 73,824,463	59,750,617	10,218,537	3,855,309
U.S. government agency securities	128,467,338	82,585,216	38,582,048	7,300,074
Commercial paper	180,063,113	180,063,113	—	—
	$ 382,354,914	322,398,946	48,800,585	11,155,383

The following table presents a listing of directly held investments and related maturities at June 30, 2009.

		Investment maturities (in years)		
	Fair value	Less than 1	1 – 5	6 – 10
Investment type:				
U.S. government securities	$ 12,756,885	7,564,250	5,192,635	—
U.S. government agency securities	188,871,154	135,625,931	38,545,180	14,700,043
Commercial paper	131,520,231	131,520,231	—	—
	$ 333,148,270	274,710,412	43,737,815	14,700,043

Credit Risk

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

In addition, the Trust Agreement limits investments in Commercial Paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in commercial paper of $180,063,113 and $131,520,231 at June 30, 2010 and 2009, respectively. All commercial paper held was short-term and rated in accordance with the Trust Agreement. The investments in U.S. government agency securities all carried the highest rating by Moody's and Standard & Poor's. All remaining investments were in U.S. government securities, which carry no credit risk.

(Continued)

Investments in Excess of 5%

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2010:

Federal National Mortgage Association	$	74,209,091	19%
Federal Home Loan Mortgage Corporation		54,258,247	14
BNP Paribas Finance Inc		30,392,765	8

Investment Commitments

The Department has made no investment commitments as of June 30, 2010.

(4) Accounts and Loans Receivable

Accounts and loans receivable at June 30, 2010 and 2009 are detailed as follows:

		2010	2009
Receivables:			
Interest	$	487,572	768,122
Trade		11,287,097	13,594,239
Federal grant		15,227,084	25,354,576
Loans		—	21,592,521
Total receivables		27,001,753	61,309,458
Allowance for doubtful accounts		—	—
Total receivables – net of allowance	$	27,001,753	61,309,458
Amounts not scheduled for collection during the subsequent year	$	—	20,297,835

During fiscal year 2002, the Trust Fund loaned $27,500,000 to Diamond State Port Corporation. The funds were loaned at an interest rate of 4.6%. Originally, the loan was to be repaid in 40 semiannual payments of $1,058,920 with the final payment to be made in January 2023. The loan was subsequently restructured four times, and interest in the amount of $4,479,405 was capitalized. The State paid $10,000,000 towards the principal of the loan on behalf of the Diamond State Port Corporation in August 2006, and payments were deferred until March 31, 2007. Effective May 31, 2009, the loan was again restructured. Additional unpaid interest through June 1, 2010 of $811,673 was capitalized into the loan balance. The new interest rate is set at 3.99%, and the loan is to be repaid in 37 semiannual installments of $813,870, commencing on March 31, 2011, with the final payment to be made on March 31, 2029.

The Diamond State Port Corporation will only be able to repay this loan with continued annual support from the General Assembly. Due to the uncertainty of future payments, the Department recorded a loss of $20,297,835 for the year ended June 30, 2010. At June 30, 2010 and 2009, the outstanding loan balance was $0 and $20,297,835, respectively.

During fiscal year 2005, the Department reached a settlement agreement with CSX Transportation, Inc., (CSX) in which CSX agreed to fund a portion of the costs of reconstruction of certain railway bridges in the City of Wilmington, Delaware. The settlement was for $6,000,000, and was recorded as a loan receivable and deferred revenue in the accompanying balance sheets. Payments were received in 10 semiannual installments of $666,387, including interest at 3.91%. Revenue is recorded as actual expenses are incurred. Revenue recorded for the years ended June 30, 2010 and 2009 was $0 and $29,959, respectively. Remaining deferred revenue at June 30, 2010 and 2009 was $2,983,466 and $2,983,466, respectively. The Department has requested federal assistance with these projects. To the extent such federal assistance is received, the loan balance may be reduced in future periods by 75% of the total federal assistance received, in accordance with the settlement agreement. The loan balance at June 30, 2010 and 2009 was $0 and $1,294,686, respectively.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 249,775,187	26,985,756	—	276,760,943
Infrastructure	3,385,364,172	47,313,099	—	3,432,677,271
Total capital assets not being depreciated	3,635,139,359	74,298,855	—	3,709,438,214
Capital assets being depreciated:				
Buildings and improvements	89,563,398	3,164,509	(1,662,515)	91,065,392
Fixtures and equipment	220,629,956	21,813,415	(5,026,962)	237,416,409
Total capital assets being depreciated	310,193,354	24,977,924	(6,689,477)	328,481,801
Less accumulated depreciation for:				
Buildings and improvements	23,695,337	2,442,802	(822,977)	25,315,162
Fixtures and equipment	97,160,342	20,608,862	(4,630,891)	113,138,313
Total accumulated depreciation	120,855,679	23,051,664	(5,453,868)	138,453,475
Total capital assets being depreciated, net	189,337,675	1,926,260	(1,235,609)	190,028,326
Capital assets, net	$ 3,824,477,034	76,225,115	(1,235,609)	3,899,466,540

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 222,985,693	26,789,494	—	249,775,187
Infrastructure	3,345,399,099	39,965,073	—	3,385,364,172
Total capital assets not being depreciated	3,568,384,792	66,754,567	—	3,635,139,359
Capital assets being depreciated:				
Buildings and improvements	77,470,754	12,336,990	(244,346)	89,563,398
Fixtures and equipment	218,606,693	29,833,079	(27,809,816)	220,629,956
Total capital assets being depreciated	296,077,447	42,170,069	(28,054,162)	310,193,354
Less accumulated depreciation for:				
Buildings and improvements	21,453,416	2,405,265	(163,344)	23,695,337
Fixtures and equipment	104,027,668	18,866,362	(25,733,688)	97,160,342
Total accumulated depreciation	125,481,084	21,271,627	(25,897,032)	120,855,679
Total capital assets being depreciated, net	170,596,363	20,898,442	(2,157,130)	189,337,675
Capital assets, net	$ 3,738,981,155	87,653,009	(2,157,130)	3,824,477,034

Depreciation expense for fiscal years 2010 and 2009 was $23,051,664 and $21,271,627, respectively.

(6) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds:					
Revenue bonds, gross	$ 1,144,255,000	113,490,000	(74,380,000)	1,183,365,000	71,760,000
Deferred amount on refunding	(1,642,175)	—	290,032	(1,352,143)	(270,818)
Revenue bonds, net	1,142,612,825	113,490,000	(74,089,968)	1,182,012,857	71,489,182
General obligation bonds	2,106,901	—	(655,587)	1,451,314	663,330
Bond issue premium, net of accumulated amortization	35,270,060	12,455,754	(7,881,533)	39,844,281	7,548,149
Insurance loss reserve	5,344,000	3,549,344	(2,473,344)	6,420,000	3,242,448
Postemployment benefits	53,376,638	37,874,127	(11,553,074)	79,697,691	—
Pollution remediation obligations	2,865,000	—	(70,800)	2,794,200	2,021,500
Compensated absences	14,345,670	—	(185,329)	14,160,341	4,335,979
Long-term liabilities	$ 1,255,921,094	167,369,225	(96,909,635)	1,326,380,684	89,300,588

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds:					
Revenue bonds, gross	$ 994,575,000	223,190,000	(73,510,000)	1,144,255,000	74,380,000
Deferred amount on refunding	(1,938,947)	—	296,772	(1,642,175)	(290,030)
Revenue bonds, net	992,636,053	223,190,000	(73,213,228)	1,142,612,825	74,089,970
General obligation bonds	2,783,006	—	(676,105)	2,106,901	655,587
Bond issue premium, net of accumulated amortization	28,364,564	14,070,933	(7,165,437)	35,270,060	7,775,660
Insurance loss reserve	4,431,000	3,211,344	(2,298,344)	5,344,000	1,594,323
Postemployment benefits	25,697,244	35,893,118	(8,213,724)	53,376,638	—
Pollution remediation obligations	—	2,865,000	—	2,865,000	50,000
Compensated absences	13,745,718	599,952	—	14,345,670	4,362,828
Long-term liabilities	$ 1,067,657,585	279,830,347	(91,566,838)	1,255,921,094	88,528,368

(7) General Obligation Bonds Outstanding

General obligation bonds outstanding at June 30, 2010 and 2009 are detailed as follows:

Sale #	Description and interest rates	Maturity date (fiscal year)		Balance outstanding June 30 2010	Balance outstanding June 30 2009
194	GO 2005B, 5.00%	2015	$	587,160	687,344
191	GO + Refunding 2004A, 3.00% – 6.00%	2014		60,066	75,082
188	GO Refunding 2003B, 4.00% – 5.00%	2012		698,388	1,185,925
185	GO + Refunding 2002A, 4.00% – 5.25%	2013		105,700	158,550
	Totals			1,451,314	2,106,901
	Less current portion			663,330	655,587
	Long-term portion		$	787,984	1,451,314

The general obligation bonds are direct obligations of the State and are secured by the full faith and credit of the State. Only that portion of the bonds attributable to the Department has been reflected in these financial statements.

The annual requirement to amortize all general obligation bonds payable as of June 30, 2010 was as follows:

		Principal maturity	Interest maturity	Total
Year ending June 30:				
2011	$	663,330	56,194	719,524
2012		346,503	30,923	377,426
2013		195,189	17,951	213,140
2014		142,866	9,777	152,643
2015		103,426	4,137	107,563
	$	1,451,314	118,982	1,570,296

(8) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2010 and 2009 are detailed as follows:

Date of issue/ maturity	Amount of original issue	Description and fixed interest rates	Balance outstanding 2010	Balance outstanding 2009
Senior bonds:				
2000/2020	83,995,000	Transportation System Senior Revenue Bonds, 2000 Series, 5.50%	$ 3,910,000	7,625,000
2001/2021	85,000,000	Transportation System Senior Revenue Bonds, 2001 Series, 4.50% – 5.00%	24,415,000	28,085,000
2002/2022	173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 4.00% – 5.25%	98,245,000	102,070,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 4.50% – 5.00%	153,305,000	178,405,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 4.00% – 5.00%	149,330,000	153,260,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.25% – 5.00%	139,510,000	146,500,000
2006/2026	127,445,000	Transportation System Senior Revenue Bonds, 2006 Series, 3.50% – 5.00%	116,240,000	120,700,000
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A Series, 4.00% – 5.00%	79,280,000	87,285,000
2008/2028	84,720,000	Transportation System Senior Revenue Bonds, 2008A Series, 4.00% – 5.00%	82,450,000	84,720,000
2008/2029	117,875,000	Transportation System Senior Revenue Bonds, 2008B Series, 4.00% – 5.00%	117,875,000	117,875,000
2009/2029	105,315,000	Transportation System Senior Revenue Bonds, 2009A Series, 5.00%	105,315,000	105,315,000
Junior bonds:				
2002/2009	48,120,000	Transportation System Junior Revenue Bonds, 2002 Series, 5.00%	—	12,415,000
GARVEE bonds:				
2010/2025	113,490,000	Transportation System Grant Anticipation Bonds, 2002 Series, 5.00%	113,490,000	—
		Total, gross	1,183,365,000	1,144,255,000
		Less deferred amount on refunding	1,352,143	1,642,175
		Total, net	1,182,012,857	1,142,612,825
		Less current portion	71,489,182	74,089,970
		Long-term portion	$ 1,110,523,675	1,068,522,855

The Transportation System Senior and Junior Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. Summary financial information for the Trust Fund was as follows at June 30:

Condensed Balance Sheets

	2010	2009
Assets:		
Current assets	$ 339,185,167	295,038,378
Capital assets	1,136,044,163	1,107,806,068
Other assets	62,057,011	78,735,693
Total assets	1,537,286,341	1,481,580,139
Liabilities:		
Current liabilities	127,283,194	132,082,557
Noncurrent liabilities	1,143,914,881	1,096,390,644
Total liabilities	1,271,198,075	1,228,473,201
Net assets:		
Invested in capital assets, net of related debt	40,209,286	10,985,572
Unrestricted	65,978,012	78,167,260
Restricted	159,900,968	163,954,106
Total net assets	$ 266,088,266	253,106,938

Condensed Statements of Revenues, Expenses, and Change in Net Assets

	2010	2009
Operating revenues (pledged against bonds)	$ 360,831,526	362,726,640
Other operating revenues	53,132,877	52,711,503
Depreciation expense	(194,012)	(189,589)
Other operating expenses	(342,875,428)	(398,907,201)
Operating income	70,894,963	16,341,353
Nonoperating revenues (expenses):		
Investment income (pledged against bonds)	2,302,349	4,672,516
Other investment income	601,545	1,050,168
Interest expense	(43,920,676)	(40,571,359)
Loss on note receivable	(20,297,835)	—
Transfer from DelDOT	289,380	—
Transfer from State General Fund	3,111,602	3,167,438
Change in net assets	12,981,328	(15,339,884)
Beginning net assets	253,106,938	268,446,822
Ending net assets	$ 266,088,266	253,106,938

(Continued)

Condensed Statements of Cash Flows

		2010	2009
Net cash provided by (used in):			
Operating activities	$	68,989,291	18,432,523
Noncapital financing activities		3,400,982	3,167,438
Capital and related financing activities		(29,420,776)	73,559,362
Investing activities		(44,727,514)	(93,891,761)
Net increase (decrease)		(1,758,017)	1,267,562
Beginning cash and cash equivalents		11,083,544	9,815,982
Ending cash and cash equivalents	$	9,325,527	11,083,544

The Transportation System Grant Anticipation Revenue (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 $131 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 8% 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 reauthorizations of federal highway aid and federal budgetary limitations.

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. The Authority had a total of $200,199,267 and $80,326,546 in authorized but unissued revenue bonds at June 30, 2010 and 2009, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

(Continued)

The annual requirement to amortize all revenue bonds payable as of June 30, 2010 was as follows:

	Principal maturity	Interest maturity	Total
Year ending June 30:			
2011	$ 71,760,000	53,061,115	124,821,115
2012	77,035,000	50,946,811	127,981,811
2013	79,590,000	47,118,867	126,708,867
2014	78,375,000	43,209,973	121,584,973
2015	78,680,000	39,456,028	118,136,028
2016 – 2020	365,770,000	143,644,268	509,414,268
2021 – 2025	309,960,000	63,864,151	373,824,151
2026 – 2030	122,195,000	12,484,896	134,679,896
	$ 1,183,365,000	453,786,109	1,637,151,109

(9) 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, 2010 and 2009, the amount of defeased debt outstanding amounted to $151,610,621 and $151,610,701, respectively.

(10) Designated Net Assets

For operations, unrestricted net assets designated by management were as follows at June 30:

		2010	2009
DTC transit funds:			
Unexpended appropriations authorized by the State budget bills were carried forward as a designated net asset. For the years ended June 30, 2010 and 2009, the DTC Transit Fund expended authorized appropriations amounting to $73,525,141 and $71,552,987, respectively. The remaining totals of budgeted appropriations to be paid in future periods are	$	162,180	817,121
Other transportation funds:			
Authorized appropriations expended to fund State highway administration, planning, operating costs, and Expressways Operations/Toll Administration operations for the years ended June 30, 2010 and 2009 were $140,825,431 and $139,597,225, respectively. Unexpended appropriations have been designated for approved expenses and are classified as designated net assets in the amounts of		3,909,267	17,107,736
Total designated net assets	$	4,071,447	17,924,857

(11) Restricted Net Assets

Restricted net assets were as follows at June 30:

		2010	2009
Pension Funds:			
Prepaid DTC pension contributions	$	2,058,306	1,669,968
Rebate Fund:			
Amounts generated from operations to meet future arbitrage rebate requirements		461,864	—
Debt Service Funds:			
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments		94,910,090	99,468,758
Debt Reserve Funds:			
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments		64,529,014	64,485,348
Highway Beautification Funds:			
Amounts held in trust to be used for highway beautification		40,009	38,574
Total restricted net assets	$	161,999,283	165,662,648

(12) 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 covers the period starting March 1, 2002 through November 30, 2007. As of June 30, 2010, DTC was still negotiating terms for a new contract with this union.

Paratransit Specialists statewide and South District Fixed Route operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008. As of June 30, 2010, DTC was still negotiating terms for a new contract with this union.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2007 through December 31, 2009. As of June 30, 2010, DTC was still negotiating terms for a new contract with this union.

(13) Pension Plans

Essentially, all full-time Department employees are covered under the State of Delaware Defined Benefit Pension Plan (the Plan), with the exception of DTC employees, who are covered under separate plans (see note 14). The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds $6,000 per calendar year. Contributions by the Department are based on

(Continued)

percentages of total employee compensation as specified by the Office of Pension and Investments, who administers the Plan.

In addition to the Plan contribution, the Department makes contributions to finance the costs of Post Retirement Increases (PRI) and Retiree Health Insurance (RHI). PRI are granted by the General Assembly to members retired under the State Employees' Plan. The funding mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund administered by the Pension Board. When the Legislature grants an ad hoc increase, the actuarial impact of the increase is funded over five years.

The following trend information for the current and preceding two years was as follows as of June 30:

Fiscal year	Annual retirement expense	Employer contribution rate			
		Pension plan	PRI	RHI	Total
2010	$ 10,367,522	6.71%	1.40%	7.16%	15.27%
2009	11,153,123	6.68	2.20	6.99	15.87
2008	11,655,164	7.07	2.52	6.99	16.58

The State does not maintain the Plan information by agency, and therefore, the Department's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension 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, DE 19904-2402.

(14) DTC Defined Benefit Pension Plans

(a) Plan Descriptions

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local 842 Amalgamated Transit Union and Local 32 Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

(b) Funding Policy and Annual Pension Cost

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

	DTC Pension Plan	Contributory Pension Plan
Contribution rates:		
Employer	*	5.00%
Participants	N/A	5.00
Annual pension cost	$ 1,033,998	674,249
Contributions made	1,033,487	1,063,098
Actuarial valuation date	7/01/09	1/01/10
Actuarial cost method	Frozen initial liability	Entry age normal
Remaining amortization period	18	30
Asset valuation method	Market	Five-year smoothed
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	4.50	4.00

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

For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.

Three-Year Trend Information

(Required Supplemental Information - Unaudited)

	Plan year ended	Contribution made	Annual Required Contribution (ARC)	Percentage of ARC contributed	Net pension asset
DTC Pension Plan	06/30/2008	$ 800,040	768,204	104.14%	$ 31,836
	06/30/2009	800,128	940,741	85.05	(108,777)
	06/30/2010	1,033,487	1,033,998	99.95	(109,288)
Contributory Pension Plan	12/31/2007	$ 879,154	440,338	199.65%	$ 1,415,091
	12/31/2008	996,405	632,751	157.47	1,778,745
	12/31/2009	1,063,098	674,249	157.67	2,167,594

Schedules of Funding Progress

(Required Supplemental Information - Unaudited)

DTC Pension Plan

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess (deficit) of assets over AAL (a -b)	Funded ratio (a/b)	Covered payroll (c)	Excess (deficit) as a percentage of covered payroll ((a – b)/c)
07/01/2007	$ 10,533,449	10,873,946	(340,497)	96.87%	$ 9,993,019	(3.41)%
07/01/2008	10,886,557	11,290,478	(403,921)	96.42	12,082,615	(3.34)
07/01/2009	10,282,778	10,797,306	(514,528)	95.23	11,624,462	(4.43)

Contributory Pension Plan

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess (deficit) of assets over AAL (a -b)	Funded ratio (a/b)	Covered payroll (c)	Excess (deficit) as a percentage of covered payroll ((a – b)/c)
01/01/2008	$ 26,949,255	27,608,650	(659,395)	97.61%	$ 18,689,331	(3.53)%
01/01/2009	21,215,934	25,814,854	(4,598,920)	82.18	22,072,382	(20.84)
01/01/2010	26,246,390	27,215,318	(968,928)	96.44	22,675,263	(4.27)

(15) Other Post-Employment Benefits (OPEB)

Essentially, all full-time Department employees are covered under the State of Delaware Other Post-Employment Benefits Fund Trust (the OPEB Trust), with the exception of DTC employees, who are covered under a separate plan (see note 16).

(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 Delaware Public Employees' Retirement System (DPERS). The OPEB Trust is administered by the DPERS 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, but the OPEB Trust is included in the Statewide Comprehensive Annual Financial Report, which will be available from the Division of Accounting.

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, New State Police, and Closed State Police pension plans.

Membership of the plan consisted of the following at June 30, 2010:

Retirees and beneficiaries receiving benefits	19,103
Terminated plan members entitled to but not yet receiving the benefits	1,809
Active eligible plan members	35,926
Total	56,838

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

Substantially, all of the State's employees become eligible for postretirement 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

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service.

Normal Retirement:

Age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service.

Benefits

During the fiscal years ended June 30, 2010 and 2009, the State provided health insurance options through several providers whose plans all include hospital, medical, mental health, substance abuse, and prescription drug benefits.

Spouse and Survivor Coverage

Both are available under any of the plan options with similar retiree contributions.

Employee Contributions

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

	Percent of premium paid by State
Years of service:	
Less than 10	0%
10 – 14	50
15 – 19	75
20 or more	100

(b) Funding Policy

The State funds the OPEB Trust for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State statute Title 29 of the Delaware Code c.52, 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 trust financial statements. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the 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. Participating employers, including the Department, were required to contribute 0% and 0.54% of the annual covered salary in fiscal years 2010 and 2009, respectively. For fiscal year 2010, the State contribution in relation to the annual required contribution of the employer (ARC) totaled $171.5 million. The portion of the contribution allocated to the Department for fiscal year 2010 was $9.2 million. For fiscal year 2009, the State contribution in relation to the ARC totaled $159.0 million. The portion of the contribution allocated to the Department for fiscal year 2009 was $7.4 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage during fiscal years 2010 and 2009 totaled $5.6 million and $3.7 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. 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 for the year, the amount actually contributed to the plan, and the State's net OPEB obligation, as well as the amounts allocated to the Department (dollar amounts in millions):

	State total	Department allocation
Net OPEB obligation as of June 30, 2009	$ 641.5	32.5
Annual required contribution	480.0	25.7
Interest on net OPEB obligation	(25.9)	(1.4)
Adjustment to annual required contribution	32.4	1.7
Annual OPEB cost	1,128.0	58.5
Employer contributions	(171.5)	(9.2)
Net OPEB obligation as of June 30, 2010	$ 956.5	49.3

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):

	Annual Required Contribution (ARC)	Percentage of annual OPEB cost contributed	Net OPEB obligation
Fiscal year ended:			
6/30/10	$ 25.7	36%	$ 49.3
6/30/09	24.1	31	32.5
6/30/08	25.2	38	15.7

(e) Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 1.8% funded. The actuarial accrued liability for benefits was $5,884 million, and the actuarial value of assets was $104 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,780 million for the State. The covered payroll (annual payroll of active employees covered by the plan) was $1,798 million, and the ratio of the UAAL to the covered payroll was 321%.

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 annual required contributions of the employer 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, 2010 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 5.00% 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 9.00% with an ultimate rate of 5.00%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.75% rate of salary increase.

(16) DTC Postemployment Benefits

(a) Plan Description

On June 1, 2010, the Delaware Transit Corporation OPEB Fund 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 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, 2010:

Retirees and beneficiaries receiving benefits	79
Terminated plan members entitled to but not yet receiving the benefits	24
Active eligible plan members	722
Total	825

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

Eligibility

Contract Employees:

Age 65 with 5 years of service or after attaining 25 years of service.

Noncontract Employees:

Age 55 with 10 years of service or age 62 with 5 years of service.

Benefits

During the fiscal year ended June 30, 2010, 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.

(b) Funding Policy

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding 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 was $865,354 and $803,627 for the years ended June 30, 2010 and 2009, respectively.

(c) Contributions

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium. Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. DTC must pay $0.25 per month per $1,000 of coverage for each employee.

(Continued)

(d) Annual OPEB Cost and Net OPEB Obligation

DTC's annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligation. The following table shows the components of DTC's annual OPEB cost for fiscal year 2010 and the preceding year, the amount actually contributed to the plan, and DTC's net OPEB obligation:

Net OPEB obligation as of June 30, 2008	$ 10,043,000
Annual required contribution	11,660,000
Interest on net OPEB obligation	406,000
Adjustment to annual required contribution	(364,000)
Annual OPEB cost	21,745,000
Contributions made	(804,000)
Net OPEB obligation as of June 30, 2009	$ 20,941,000

Net OPEB obligation as of June 30, 2009	$ 20,941,000
Annual required contribution	11,677,000
Interest on net OPEB obligation	996,000
Adjustment to annual required contribution	(863,000)
Annual OPEB cost	32,751,000
Contributions made	(865,000)
Prefunding trust contribution	(1,500,000)
Net OPEB obligation as of June 30, 2010	$ 30,386,000

The following information is required supplemental information – unaudited:

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

	Annual OPEB Cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
Fiscal year ended:			
6/30/10	$ 11,810,000	20.02%	$ 30,386,000
6/30/09	11,702,000	6.87	20,941,000
6/30/08	10,767,000	6.70	10,043,000

(e) Funded Status and Funding Progress

As of June 30, 2010, the plan was 1.8% funded. The actuarial accrued liability for benefits was $82,631,000. The covered payroll (annual payroll of active employees covered by the plan) was $31,420,280, and the ratio of the UAAL to the covered payroll was 38.0%.

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 annual required contributions of the employer 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 April 1, 2010 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.75% investment rate of return, 4% payroll growth rate, a 3.20% inflation rate, and a healthcare cost trend rate of 8.00% initially, reduced by decrements to 6.90% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.20% after 2080. The UAAL is being amortized as a level percentage of payroll over a 30-year amortization period.

(Continued)

(17) Commitments and Contingencies

(a) Construction Commitments

The Department had contractual commitments of $280,655,996 and $363,219,935 for construction of various highway projects at June 30, 2010 and 2009, respectively. 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

The Department is required to reasonably estimate and report a pollution remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Department is compelled to take action;
- The Department is in violation of a pollution related permit or license;
- The Department is named or has evidence that it will be named as a responsible party by a regulator;
- The Department is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- 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. The Department calculates 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.

During fiscal years 2010 and 2009, the Department did not recognize any additional liabilities, had no spending related to pollution remediation obligation related activities, and had no recoveries from other responsible parties. For fiscal year 2010, the liability initially recorded was reduced by $70,800 due to revised cost estimates. At June 30, 2010 and 2009, the Department had an outstanding pollution remediation liability of $2,794,200 and $2,865,000, respectively.

(18) 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 from the workers' compensation loss contingency reserve. Once a specific 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 is insured through the State. Under the State program, DTC pays a premium calculated as $1.75 per $100 of payroll for each of the years ended June 30, 2010 and 2009. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

(b) Auto Insurance

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

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

For 2003 and subsequent years, DTC changed its auto insurance coverage whereby they established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for 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 $300,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329).

DTC has several cases that were settled in excess of the sovereign immunity cap. The exposure on these cases cannot be reasonably quantified. 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 insurance coverage in the amounts identified in the table below:

		Initial loss reserve insurance liability established	Maximum amount of loss under self-insured retention program (per occurrence)	Excess commercial coverage (aggregate)
2003	$	2,561,000	1,300,000	10,000,000
2004		2,666,763	1,300,000	6,000,000
2005		2,763,367	2,300,000	5,000,000
2006		2,858,258	2,300,000	5,000,000
2007 (07/01/06 – 01/14/07)		2,607,350	2,300,000	5,000,000
2007 (01/15/07 – 06/30/07)		*	900,000	**
2008		3,106,000	900,000	**
2009		3,129,000	900,000	**
2010		3,467,000	1,000,000	***

* Initial loss reserve established at 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 the 2010 loss year, DTC is self-insured with no commercial coverage.

The components of the remaining insurance loss reserve were as follows at June 30:

	2010	2009
Auto loss reserve remaining for fiscal year:		
2010	$ 2,778,000	—
2009	1,844,000	2,237,000
2008	1,097,000	1,362,000
2007	572,000	1,232,000
2006	80,000	384,000
2005	20,000	75,000
2004	17,000	21,000
2003	8,000	13,000
2001	—	16,000
1999	4,000	4,000
	$ 6,420,000	5,344,000

Changes in the balances of total claim liabilities during fiscal years 2010 and 2009 were as follows:

	Beginning balance July 1	Current year estimated claims and changes in estimates	Actual claim payments	Ending balance June 30
Fiscal year:				
2010	$ 5,344,000	6,162,334	(5,086,334)	6,420,000
2009	4,431,000	3,130,845	(2,217,845)	5,344,000

(19) Operating Leases

The Department has several noncancelable 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 $290,342 and $300,988 for the years ended June 30, 2010 and 2009, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2010 are as follows:

2011	$	272,910
2012		241,093
2013		239,323
2014		162,574
2015		126,400
2016 - 2020		61,750
	$	1,104,050

DTC had an operating lease agreement for transit vehicle tires, which expired on May 19, 2009. DTC is continuing to operate under the old contract as a new one has not been negotiated yet. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2010 and 2009, DTC incurred expenses related to this lease of $168,583 and $250,022, respectively.

(20) Contributions from the State General Fund

The State of Delaware's General Assembly and the State of Delaware's Division of Revenue transferred the following amounts from the State's General Fund to the Department at June 30:

		2010	**2009**
Amounts transferred to the Revenue Fund:			
Division of Revenue, Motor Vehicle Dealer/Lessor license and document fees	$	153,239	298,238
Amounts transferred to the Trust Fund:			
Division of motor vehicles		2,842,000	2,869,200
Division of Revenue, Motor Vehicle Dealer/Lessor license and document fees		116,363	—
	$	3,111,602	3,167,438

(21) Reclassification

For the year ended June 30, 2009, bond issuance cost were reclassified to conform to current year presentation. This reclassification had no effect on total net assets as of June 30, 2009 or the change in net assets for the year then ended.

REQUIRED SUPPLEMENTARY INFORMATION

Structural rating numbers and percentages for bridges

	BCR condition rating	2009 Number	2009 Percentage	2008 Number	2008 Percentage	2007 Number	2007 Percentage
Good	6 – 9	1,144	73.5%	1,118	74.1%	1,131	77.6%
Fair	5	295	19.0	291	19.3	261	17.9
Poor	0 – 4	117	7.5	100	6.6	65	4.5
Totals		1,556	100.0%	1,509	100.0%	1,457	100.0%

Deck rating numbers and percentages for bridges

	OBC condition rating	2009 Square feet	2009 Percentage	2008 Square feet	2008 Percentage	2007 Square feet	2007 Percentage
Good	6 – 9	6,800,531	92.8%	6,799,842	93.0%	6,809,939	93.4%
Fair	5	510,306	7.0	485,635	6.6	450,384	6.2
Poor	0 – 4	19,558	0.3	26,253	0.4	29,590	0.4
Totals		7,330,395	100.1%	7,311,730	100.0%	7,289,913	100.0%

Centerline mile numbers and percentages for roadways

	OPC condition rating	2008 Centerline mile	2008 Percentage	2007 Centerline mile	2007 Percentage	2006 Centerline mile	2006 Percentage
Good	3.0 – 5.0	3,007	67.6%	3,071	68.9%	3,055	68.6%
Fair	2.5 – 3.0	1,000	22.5	935	21.0	933	20.9
Poor	Below 2.5	440	9.9	448	10.1	466	10.5
Totals		4,447	100.0%	4,454	100.0%	4,454	100.0%

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

	2010	2009	2008	2007	2006
Estimated	$ 102,183	208,764	197,301	129,138	135,991
Actual	336,214	308,732	271,333	256,571	211,347

* The estimated expenditure represents annual Bond Bill authorizations. The actual expenditure represents the current year spending, which includes cumulative authorizations.

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.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Supplementary Information for Governments
That Use the Modified Approach for Infrastructure Assets

See Independent Auditors' Report

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the 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 these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems (combined structural and deck ratings) at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Currently, bridge condition assessments are conducted every two years. Historically, road condition assessments were conducted every year. Recent changes to the road condition vendor contract have resulted in the inability to provide infrastructure ratings for fiscal year 2010. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2010 is not available.

ADDITIONAL INFORMATION

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Schedule of Revenue Bond Coverage

June 30, 2010

(In thousands)

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 Department. Further information for the Department may be found in the notes to financial statements, changes in long-term liabilities and bonds outstanding.

Fiscal year		Gross pledged revenue	Debt service requirements: Principal	Debt service requirements: Interest	Debt service requirements: Total	Coverage*
2001	$	293,026	35,315	37,537	72,852	4.02
2002		303,794	39,565	35,269	74,834	4.06
2003		302,754	41,490	44,957	86,447	3.50
2004		308,091	47,640	38,176	85,816	3.59
2005		300,820	53,920	39,370	93,290	3.22
2006		337,350	58,445	40,573	99,018	3.41
2007		346,954	61,370	45,534	106,904	3.25
2008		381,590	67,640	46,210	113,850	3.35
2009		367,399	73,510	43,619	117,129	3.14
2010		363,134	74,380	50,885	125,265	2.91

* The above coverage 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.

See accompanying independent auditors' report