



**DELAWARE TRANSIT CORPORATION**

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

# DELAWARE TRANSIT CORPORATION

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# DELAWARE TRANSIT CORPORATION

## Management's Discussion and Analysis

June 30, 2011 and 2010

This section of Delaware Transit Corporation's (DTC) annual financial statements presents our discussion and analysis of DTC's financial performance during the fiscal year ended June 30, 2011.

### Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates DART First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of the Delaware Administration for Regional Transit, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 224 fixed route and 290 paratransit vehicles on 70 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 38 park-and-ride lots and 13 park-and-pool lots with an estimated 4,329 parking spaces. DTC maintains approximately 2,739 bus stops throughout the State, with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carry over 12 million riders per year.

### Financial Highlights

- The 2011 operating revenues were approximately \$16.2 million and were 5.9% higher than 2010 operating revenues. Passenger revenues contributed to the increase, primarily due to an increase in the volume of passengers using DTC's services.
- Total 2011 operating expenses before depreciation were approximately \$110.4 million and were \$8 million higher than 2010 operating expenses. The increase in operating expenses before depreciation is largely due to the implementation of Sunday fixed-route and paratransit service in New Castle County and Saturday fixed-route service in Kent County, along with increased costs for wages, benefits, and consumables.
- A \$15.8 million investment was made in capital assets during the current year (the funding was \$1.5 million in state capital grants, \$14.1 million in federal capital grants, and \$0.2 million in state operating dollars). This is primarily attributable to the purchase of revenue vehicles.

### Overview of the Financial Statements

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

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

DTC's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in net assets. All assets and liabilities associated with the operation of DTC are included in the balance sheets.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2011 and 2010

#### Financial Analysis of DTC

##### *Balance Sheets*

Total assets decreased 0.8% to \$139 million. Total liabilities increased 39.3% to \$61.7 million mostly due to increases in other post-employment benefits payable during the current year. Total net assets at June 30, 2011 were approximately \$77.3 million, a 19.2% decrease from June 30, 2010.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change 2011 – 2010</u>	<u>Percentage change 2010 – 2009</u>
Current assets	\$ 31.6	32.1	33.7	(1.6)%	(4.7)%
Capital assets	104.8	105.9	98.4	(1.0)	7.6
Other noncurrent assets	2.6	2.1	1.7	23.8	23.5
Total assets	<u>139.0</u>	<u>140.1</u>	<u>133.8</u>	<u>(0.8)</u>	<u>4.7</u>
Current liabilities	11.8	8.9	8.4	32.6	6.0
Noncurrent liabilities	49.9	35.4	26.7	41.0	32.6
Total liabilities	<u>61.7</u>	<u>44.3</u>	<u>35.1</u>	<u>39.3</u>	<u>26.2</u>
Net assets:					
Restricted	2.6	2.1	1.7	23.8	23.5
Invested in capital assets	104.8	105.9	98.4	(1.0)	7.6
Unrestricted	(30.1)	(12.2)	(1.4)	146.7	771.4
Total net assets	<u>\$ 77.3</u>	<u>95.8</u>	<u>98.7</u>	<u>(19.3)%</u>	<u>(2.9)%</u>

The decrease in current assets is due primarily to a decrease in cash and cash equivalents. The increase in total liabilities was due to an increase in other post-employment benefits payable. The large decrease in unrestricted net assets is primarily the result of DTC's recognition of other post-employment expenses of \$15.8 million and \$11.8 million for fiscal years ended June 30, 2011 and 2010, respectively, and not providing funding for the annual required contribution.

## DELAWARE TRANSIT CORPORATION

### Management's Discussion and Analysis

June 30, 2011 and 2010

#### *Change in Net Assets*

The decrease in net assets as of June 30, 2011 was approximately \$18.4 million, which is a decrease in net assets of 19.2% over 2010. The increase in DTC's 2011 total operating revenues of \$16.2 million is primarily due to increased other operating revenues. Total operating expenses increased 7.9% to approximately \$127.0 million.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change 2011 – 2010</u>	<u>Percentage change 2010 – 2009</u>
Operating revenues:					
Passenger revenue	\$ 14.0	13.5	12.8	3.7%	5.5%
Other operating revenue	<u>2.2</u>	<u>1.8</u>	<u>1.8</u>	<u>22.2</u>	<u>—</u>
Total operating revenues	<u>16.2</u>	<u>15.3</u>	<u>14.6</u>	<u>5.9</u>	<u>4.8</u>
Operating expenses:					
Total operating expenses before depreciation, net of gains on retirements of property and equipment	110.4	102.4	98.6	7.8	3.9
Depreciation, net of gains on retirements of property and equipment	<u>16.6</u>	<u>15.3</u>	<u>14.3</u>	<u>8.5</u>	<u>7.0</u>
Total operating expenses	<u>127.0</u>	<u>117.7</u>	<u>112.9</u>	<u>7.9</u>	<u>4.3</u>
Operating loss	(110.8)	(102.4)	(98.3)	8.2	4.2
Nonoperating revenues, net	2.1	2.4	2.1	(12.5)	14.3
Capital contributions	14.1	14.9	12.6	(5.4)	18.3
Transfers from DelDOT	<u>76.2</u>	<u>82.2</u>	<u>84.9</u>	<u>(7.3)</u>	<u>(3.2)</u>
Change in net assets	(18.4)	(2.9)	1.3	534.5	(323.1)
Total net assets – beginning of year	<u>95.7</u>	<u>98.6</u>	<u>97.3</u>	<u>(2.9)</u>	<u>1.3</u>
Total net assets – end of year	<u>\$ 77.3</u>	<u>95.7</u>	<u>98.6</u>	<u>(19.2)%</u>	<u>(2.9)%</u>

The increases in operating expenses over 2011 and 2010 are due to the increased costs relating to salaries and fringe benefits, as well as other post-employment benefits.

Capital contributions were up from \$12.6 million in 2009 to \$14.9 million in 2010 and were down from \$14.9 million in 2010 to \$14.1 million in 2011 due to DTC's timing related to vehicle replacement and expansion schedule.

# DELAWARE TRANSIT CORPORATION

## Management's Discussion and Analysis

June 30, 2011 and 2010

### ***Capital Assets***

As of June 30, 2011 and 2010, DTC had approximately \$192.6 million and \$188.1 million, respectively, invested in capital assets, which includes land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's capital assets at June 30, 2011 and 2010 totaled approximately \$104.8 million and \$105.9 million, respectively.

Net capital assets decreased \$1.1 million and increased \$7.5 million during the years ended June 30, 2011 and 2010, respectively. The decrease in capital assets for the year ended June 30, 2011 is attributed to the purchase of 11 expansion revenue vehicles and 80 replacement revenue vehicles amounting to \$15.8 million, offset by depreciation expense of \$16.9 million. The increase in capital assets for the year ended June 30, 2010 is attributed to the purchase of 22 expansion revenue vehicles and 76 replacement revenue vehicles amounting to \$22.9 million, offset by depreciation expense of \$15.3 million.

Assets disposed of during 2011 and 2010 totaled \$11.3 million and \$3.6 million, respectively. Disposals related primarily to the replacement of revenue vehicles.

### **Economic Factors and Next Year's Budget**

DTC submits their operating and capital budgets as part of DelDOT's submission to the General Assembly. DTC's fiscal year 2012 operating and capital budgets have been authorized by the General Assembly to meet the demand for core transit services in the State. The fiscal year 2012 total operating budget is \$96.1 million, which is 5.4% higher than fiscal year's 2011 operating budget. The capital budget is \$84.2 million, which authorizes funding for the purchase of replacement and expansion transit vehicles, facility construction, and rail projects.

Governmental Accounting Standards Board (GASB) 45 was effective for DTC beginning in 2008. DTC provides post-retirement healthcare benefits to all employees who retire from DTC after meeting eligibility requirements. GASB 45 requires calculation of the unfunded actuarial accrued liability and annual required contribution related to these post-retirement benefits. The pay-as-you-go cash basis costs associated with these benefits were \$1 million and \$0.9 million for the years ended June 30, 2011 and 2010, respectively. The impact on the financial statements based upon this standard was the recognition of \$15.7 million and \$11.8 million in benefit expenses for the years ended June 30, 2011 and 2010, respectively. DTC expects a similar impact in the 2012 financial statements.

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

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



KPMG LLP  
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## Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Delaware Transit Corporation (DTC), a subsidiary of Delaware Transportation Authority, which is a blended component unit of the State of Delaware, as of June 30, 2011 and 2010, 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 DTC management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DTC'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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Delaware Transit Corporation, as of June 30, 2011 and 2010, and the respective changes in financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of the DTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The 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 on pages 1 through 4 is not a required part of the basic financial statements but is 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 audits were conducted for the purpose of forming an opinion on DTC's financial statements. The supplemental information included in schedule of revenues and expenses compared to budget and schedules of expenses by mode on pages 26 through 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

October 31, 2011

**DELAWARE TRANSIT CORPORATION**

Balance Sheets

June 30, 2011 and 2010

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents	\$ 25,781,756	27,396,547
Receivables:		
Trade	776,426	557,183
State	210,291	49,683
Federal	236,114	33,126
Inventories of supplies and fuel	3,614,992	3,457,817
Escrow insurance deposits	275,967	311,537
Prepaid expenses	684,217	281,854
Total current assets	<u>31,579,763</u>	<u>32,087,747</u>
Noncurrent assets:		
Capital assets	192,564,836	188,087,972
Less: accumulated depreciation	<u>87,775,217</u>	<u>82,169,834</u>
	104,789,619	105,918,138
Prepaid pension	<u>2,604,418</u>	<u>2,058,306</u>
Total noncurrent assets	<u>107,394,037</u>	<u>107,976,444</u>
Total assets	<u>\$ 138,973,800</u>	<u>140,064,191</u>

# DELAWARE TRANSIT CORPORATION

## Balance Sheets

June 30, 2011 and 2010

<b>Liabilities and Net Assets</b>	<b>2011</b>	<b>2010</b>
Current liabilities:		
Accounts payable	\$ 3,159,333	1,624,930
Accrued payroll and related expenses	3,235,787	3,014,165
Compensated absences	1,180,702	946,607
Other accrued expenses	116,500	82,585
Insurance loss reserve	4,130,201	3,242,448
Total current liabilities	11,822,523	8,910,735
Noncurrent liabilities:		
Compensated absences – net of current portion	1,826,355	1,847,545
Insurance loss reserve – net of current portion	2,944,799	3,177,552
Postemployment benefits payable	45,115,000	30,386,000
Total liabilities	61,708,677	44,321,832
Net assets:		
Restricted – pension obligations	2,604,418	2,058,306
Invested in capital assets	104,789,619	105,918,138
Unrestricted	(30,128,914)	(12,234,085)
Total net assets	77,265,123	95,742,359
Total liabilities and net assets	\$ 138,973,800	140,064,191

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Revenues, Expenses, and Change in Net Assets

Years ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Operating revenues:		
Passenger fares	\$ 13,962,917	13,474,002
Advertising	472,077	364,482
Miscellaneous	999,832	606,218
Auxiliary transportation	707,604	891,736
Total operating revenues	16,142,430	15,336,438
Operating expenses:		
Vehicle operations	67,664,687	60,538,859
Maintenance:		
Vehicle	13,298,311	12,298,573
Nonvehicle	3,318,868	3,324,230
General administration	26,167,188	26,250,296
Total operating expenses before depreciation	110,449,054	102,411,958
Depreciation, net of gain on retirements of property and equipment	16,568,187	15,279,505
Total operating expenses	127,017,241	117,691,463
Operating loss	(110,874,811)	(102,355,025)
Nonoperating revenues (expenses):		
Federal operating assistance	3,356,760	3,284,821
Pass-through grant revenue	1,091,359	1,366,740
Pass-through grant expense	(2,382,548)	(2,367,108)
Investment income	62,029	80,158
Excess of nonoperating revenues over nonoperating expenses	2,127,600	2,364,611
Loss before contributions and transfers	(108,747,211)	(99,990,414)
Capital contributions	14,050,896	14,865,972
Transfers from DelDOT	76,219,079	82,219,010
Change in net assets	(18,477,236)	(2,905,432)
Total net assets – beginning of year	95,742,359	98,647,791
Total net assets – end of year	\$ 77,265,123	95,742,359

See accompanying notes to financial statements.

**DELAWARE TRANSIT CORPORATION**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Receipts from passengers	\$ 13,743,675	13,681,393
Payments to suppliers	(38,174,230)	(36,795,510)
Payments to employees	(51,966,290)	(52,012,587)
Insurance claims paid	(4,027,340)	(5,086,334)
Other receipts	2,179,513	1,862,436
Net cash used in operating activities	(78,244,672)	(78,350,602)
Cash flows from noncapital financing activities:		
Federal operating subsidies	3,356,760	3,284,821
Pass-through grant revenue receipts	1,091,359	1,366,740
Pass-through grant revenue payments	(2,382,547)	(2,367,108)
Transfers from DelDOT	74,677,861	74,483,683
Net cash provided by noncapital financing activities	76,743,433	76,768,136
Cash flows from capital and related financing activities:		
Proceeds from capital contributions	13,847,908	14,967,907
Transfers from DelDOT – capital	1,380,610	7,902,888
Acquisition of capital assets	(15,800,143)	(22,861,800)
Proceeds from sale of equipment	360,474	51,299
Net cash provided by (used in) capital and related financing activities	(211,151)	60,294
Cash flows from investing activities:		
Payments from insurance escrow account	35,570	674,025
Investment income received	62,029	80,158
Net cash provided by investing activities	97,599	754,183
Net decrease in cash and cash equivalents	(1,614,791)	(767,989)
Cash and cash equivalents – beginning	27,396,547	28,164,536
Cash and cash equivalents – ending	\$ 25,781,756	27,396,547
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (110,874,811)	(102,355,025)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation, net of gains on retirements of property and equipment	16,568,187	15,279,505
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	(219,243)	207,394
Increase in inventories	(157,175)	(274,767)
Increase in prepaid expenses	(402,363)	(28,290)
Increase in prepaid pension	(546,112)	(388,338)
Increase (decrease) in accounts payable	1,534,403	(1,393,494)
Increase in insurance loss reserve	655,000	1,076,000
Increase (decrease) in compensated absences	212,905	(143,340)
Increase in other accrued expenses	33,915	—
Increase in accrued payroll and related expenses	221,622	224,753
Increase in post-employment benefits	14,729,000	9,445,000
Net cash used in operating activities	\$ (78,244,672)	(78,350,602)

See accompanying notes to financial statements.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2011 and 2010

#### (1) Authorizing Legislation

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

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

#### (2) Significant Accounting Policies

##### (a) Reporting Entity

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

##### (b) Basis of Accounting

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

##### (c) Cash and Cash Equivalents

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

Included in cash at June 30, 2011 and 2010 was \$6,799,033 and \$6,108,463, respectively, which will be utilized to fund the remaining unpaid loss insurance liability (note 11) less the escrow insurance deposits.

##### (d) Inventories

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

##### (e) Capital Assets

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

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2011 and 2010

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

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

**(f) *Compensated Absences***

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

**(g) *Customer Fares***

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

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

Management charges income with doubtful accounts when they are considered uncollectible. At June 30, 2011 and 2010, there was no allowance for doubtful accounts.

**(i) *Management Estimates***

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

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

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

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

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

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

**(3) Cash and Investments**

**(a) Cash Management Policy**

DTC follows the guidelines and requirements issued and adopted by the Cash Management Policy Board of the State. The Policy is available on the Internet at <http://delcode.delaware.gov/title29/c061/index.shtml>.

**(b) Custodial Credit Risk**

Deposits – All deposits are held by one financial institution and are carried at cost, which approximates market value. The carrying amounts of DTC's deposits at June 30, 2011 and 2010 were \$25,781,756 and \$27,396,547, respectively, and the bank balances were \$26,384,063 and \$27,844,988, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The entire bank balances at June 30, 2011 and 2010 of \$26,384,063 and \$27,844,988, respectively, were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by DTC's Trustee, in DTC's name, for the remainder. At June 30, 2010, the FDIC covered \$250,000. At June 30, 2011, noninterest bearing accounts had unlimited FDIC coverage, and interest bearing accounts were covered by the FDIC for \$250,000.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

**(4) Capital Assets**

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

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 1,872,536	—	—	1,872,536
Total capital assets not being depreciated	<u>1,872,536</u>	<u>—</u>	<u>—</u>	<u>1,872,536</u>
Capital assets being depreciated:				
Buildings	39,698,928	2,325,014	(264)	42,023,678
Revenue vehicles	99,932,132	19,030,166	(3,547,372)	115,414,926
Service vehicles and equipment	7,229,769	240,688	(65,058)	7,405,399
Communication equipment	16,112,166	793,170	—	16,905,336
Furniture and fixtures	360,008	120,272	(1,089)	479,191
Bus signs and shelters	3,639,892	352,490	(5,476)	3,986,906
	<u>166,972,895</u>	<u>22,861,800</u>	<u>(3,619,259)</u>	<u>186,215,436</u>
Less accumulated depreciation:				
Buildings	12,084,897	1,261,575	(1)	13,346,471
Revenue vehicles	39,618,460	11,802,877	(3,535,928)	47,885,409
Service vehicles and equipment	2,722,795	845,930	(59,671)	3,509,054
Communication equipment	13,238,443	1,135,606	—	14,374,049
Furniture and fixtures	250,226	33,106	(958)	282,374
Bus signs and shelters	2,543,469	233,703	(4,695)	2,772,477
	<u>70,458,290</u>	<u>15,312,797</u>	<u>(3,601,253)</u>	<u>82,169,834</u>
Total capital assets being depreciated, net	<u>96,514,605</u>	<u>7,549,003</u>	<u>(18,006)</u>	<u>104,045,602</u>
Total capital assets, net	<u>\$ 98,387,141</u>	<u>7,549,003</u>	<u>(18,006)</u>	<u>105,918,138</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$16,850,489 and \$15,312,797, respectively.

**(5) Long-Term Liabilities**

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

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Compensated absences	\$ 2,937,492	—	(143,340)	2,794,152	946,607
Loss reserve – insurance	5,344,000	6,162,334	(5,086,334)	6,420,000	3,242,448
Post-employment benefit liability	20,941,000	11,810,000	(2,365,000)	30,386,000	—
Long-term liabilities \$	<u>29,222,492</u>	<u>17,972,334</u>	<u>(7,594,674)</u>	<u>39,600,152</u>	<u>4,189,055</u>

**(6) Union Contracts**

Operators and maintenance personnel of the North District Fixed Route System are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007. As of June 30, 2011, DTC is still negotiating terms for a new contract with the Amalgamated Transit Union, AFL-CIO, Local 842.

Paratransit Specialists statewide and South District Fixed Route Operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008. As of June 30, 2011, DTC is still negotiating terms for a new contract with the Amalgamated Transit Union, AFL-CIO, Local 842.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the current Collective Bargaining Agreement is from January 1, 2007 through December 31, 2009. As of June 30, 2011, DTC is still negotiating terms for a new contract with the Office and Professional Employee International Union, Local 32, AFL-CIO.

**(7) Defined Benefit Pension Plans**

**(a) Plan Descriptions**

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

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

	<u>DTC pension plan</u>	<u>Contributory pension plan</u>
Contribution rates:		
Employer	*	5.00%
Participants	N/A	5.00%
Annual pension cost	\$ 1,111,548	535,681
Contributions made	\$ 1,111,468	1,081,793
Actuarial valuation date	07/01/10	01/01/11
Actuarial cost method	Frozen initial liability	Entry age normal
Remaining amortization period	30	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%
* Actuarially determined		
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)

	<u>Plan year ended</u>	<u>Contribution made</u>	<u>Annual required contribution (ARC)</u>	<u>Percentage of ARC contributed</u>	<u>Net pension plan asset (liability)</u>
DTC pension plan	06/30/2009	\$ 800,128	940,741	85.05%	\$ (108,777)
	06/30/2010	1,033,487	1,033,998	99.95	(109,288)
	06/30/2011	1,111,468	1,111,548	99.99	(109,368)
Contributory pension plan	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
	12/31/2010	1,081,793	535,681	201.95	2,713,706

# DELAWARE TRANSIT CORPORATION

## Notes to Financial Statements

June 30, 2011 and 2010

### Schedules of Funding Progress (Required Supplemental Information – Unaudited)

	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess (deficit) of assets over AAL (a-b)	Funded ratio (a/b)	Covered payroll (c)	Excess (deficit) as a percentage of covered payroll ((a-b)/c)
DTC pension plan	07/01/2008	\$ 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)
	07/01/2010	12,329,167	12,841,594	(512,427)	96.01	11,464,713	(4.47)
Contributory pension plan	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)
	01/01/2011	29,920,228	29,601,647	318,581	101.08	22,847,401	1.39

### (8) Operating Leases

DTC has several noncancelable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require DTC to pay for maintenance and liability insurance costs. Rental expenses were \$26,722 and \$25,603 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2011 are as follows:

2012	\$ 7,800
2013	3,800
2014	1,800
2015	1,800
2016	1,800
2017 – 2020	7,200
	\$ 24,200

DTC had an operating lease agreement for transit vehicle tires that expired on May 19, 2009. DTC is continuing to operate under the old contract as a new one has not been negotiated yet. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2011 and 2010, DTC incurred expenses related to this lease of \$248,578 and \$168,583, respectively.

### (9) Economic Dependency

DTC's revenue from operating subsidies from the State was approximately 77% of total revenue for each of the years ended June 30, 2011 and 2010.

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2011 and 2010

#### (10) Commitments and Contingencies

##### *Litigation*

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

#### (11) Risk Management

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

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

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

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

Subsequent to fiscal year 2003, DTC changed its coverage and was insured through the State. Under the State program, DTC paid a premium calculated as \$4.50 and \$1.75 per \$100 of payroll for the years ended June 30, 2011 and 2010, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

##### (b) *Auto Insurance*

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

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

For 2003 and subsequent years, DTC changed its auto insurance coverage whereby they established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for amount coverage in excess of the self-insured retention thresholds. DTC established initial loss reserve insurance liabilities for each of the years based upon actuarially determined valuations assuming DTC's maximum liability exposure to be \$300,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329). DTC had several cases that were settled in excess of the sovereign immunity cap.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

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

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

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

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

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

	<u>2011</u>	<u>2010</u>
Auto loss reserve remaining for fiscal year 2011	\$ 3,095,000	—
Auto loss reserve remaining for fiscal year 2010	2,291,000	2,778,000
Auto loss reserve remaining for fiscal year 2009	872,000	1,844,000
Auto loss reserve remaining for fiscal year 2008	644,000	1,097,000
Auto loss reserve remaining for fiscal year 2007	116,000	572,000
Auto loss reserve remaining for fiscal year 2006	34,000	80,000
Auto loss reserve remaining for fiscal year 2005	12,000	20,000
Auto loss reserve remaining for fiscal year 2004	7,000	17,000
Auto loss reserve remaining for fiscal year 2003	—	8,000
Auto loss reserve remaining for fiscal year 1999	4,000	4,000
	<u>\$ 7,075,000</u>	<u>6,420,000</u>

Changes in the balances of total claim liabilities during fiscal years 2011 and 2010 were as follows:

<u>Fiscal year</u>	<u>Beginning balance, July 1</u>	<u>Current year estimated claims and changes in estimates</u>	<u>Actual claim payments</u>	<u>Ending balance, June 30</u>
2010	\$ 5,344,000	6,162,334	(5,086,334)	6,420,000
2011	6,420,000	4,682,340	(4,027,340)	7,075,000

**(12) Transfers**

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

	<u>2011</u>	<u>2010</u>
Amounts transferred as operating assistance	\$ 73,524,091	73,525,141
Amounts transferred as pass-through grant revenues	1,153,770	958,542
Amounts transferred as capital funding for purchase of capital assets	1,541,218	7,735,327
Total transfers from DelDOT	<u>\$ 76,219,079</u>	<u>82,219,010</u>

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

*Plan Description*

In June 2010, the Delaware Transit Corporation OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The OPEB Trust is administered by DTC. Policy for and

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

management of the OPEB Trust provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the OPEB Trust.

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

Membership of the plan consisted of the following at June 30, 2011:

Retirees and beneficiaries receiving benefits	\$	83
Terminated plan members entitled to but not yet receiving the benefits		29
Active eligible plan members		<u>787</u>
Total	\$	<u><u>899</u></u>

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

***Eligibility***

Contract employees:

Age 65 with 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, 2011, DTC provided health insurance options through several providers.

***Spouse and Survivor Coverage***

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

***Employee Contributions***

No contributions are required by the employees.

***Funding Policy***

DTC funds the OPEB Trust on a pay-as-you-go basis with additional funding provided in the OPEB Trust on an ad hoc basis. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee for the OPEB Trust and is

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2011 and 2010

responsible for the financial management of the OPEB Trust. The cash basis costs associated with these benefits were \$1,042,565 and \$865,354 for the years ended June 30, 2011 and 2010, respectively.

#### ***Contributions***

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium. Life insurance is provided to retirees. Retirees under age 70 receive \$6,000 in coverage. Once the participant reaches age 70, the coverage drops to \$5,000. DTC must pay \$0.23 per month per \$1,000 of coverage for each employee.

#### ***Annual OPEB Cost and Net Obligation***

DTC's annual OPEB cost is calculated based upon the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of DTC's annual OPEB cost for fiscal year 2011 and the preceding year, the amount actually contributed to the plan, and DTC's net OPEB obligation:

Net OPEB obligation at June 30, 2009	\$	20,941,000
Annual required contribution		11,677,000
Interest on net OPEB obligation		996,000
Adjustment to annual required contribution		<u>(863,000)</u>
Net OPEB obligation before contributions		32,751,000
Contributions made		(865,000)
Prefunding trust contribution		<u>(1,500,000)</u>
Net OPEB obligation at June 30, 2010	\$	<u>30,386,000</u>
Net OPEB obligation at June 30, 2010	\$	30,386,000
Annual required contribution		15,727,000
Interest on net OPEB obligation		1,215,000
Adjustment to annual required contribution		<u>(1,170,000)</u>
Net OPEB obligation before contributions		46,158,000
Contributions made		(1,043,000)
Prefunding trust contribution		<u>—</u>
Net OPEB obligation at June 30, 2011	\$	<u>45,115,000</u>

## DELAWARE TRANSIT CORPORATION

### Notes to Financial Statements

June 30, 2011 and 2010

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:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
06/30/2011	\$ 15,772,000	6.61%	\$ 45,115,000
06/30/2010	11,810,000	20.02	30,386,000
06/30/2009	11,702,000	6.87	20,941,000

#### *Funded Status and Funding Progress*

As of June 30, 2011, the plan was 1.3% funded. The actuarial accrued liability was \$111,122,000. The unfunded actuarial accrued liability (UAAL) was \$109,622,000. The covered payroll (annual payroll of active employees covered by the plan) was \$31,293,725, and the ratio of the UAAL to the covered payroll was 350.3%.

The actuarial value of the assets as of the July 1, 2010 was \$1,500,000.

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

#### *Actuarial Methods and Assumptions*

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

In the July 1, 2010 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.0% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced by decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

**DELAWARE TRANSIT CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

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

DTC has a deficit on unrestricted net assets of \$30,128,914 and \$12,234,085 as of June 30, 2011 and 2010, respectively. The deficit was caused by the implementation of GASB 45, which required DTC to calculate and record the annual unfunded required contribution related to post-employment benefits provided to retirees. See the financial impact in note 13.

## **ADDITIONAL INFORMATION**

**DELAWARE TRANSIT CORPORATION**

Schedule of Revenues and Expenses Compared to Budget

Year ended June 30, 2011

	<b>Budget (unaudited)</b>	<b>Actual</b>	<b>Favorable (unfavorable)</b>
Operating revenues:			
Passenger fares	\$ 12,898,600	13,962,917	1,064,317
Advertising	450,000	472,077	22,077
Miscellaneous	370,000	999,832	629,832
Auxiliary transportation	810,200	707,604	(102,596)
Total operating revenues	14,528,800	16,142,430	1,613,630
Operating expenses	91,214,120	110,449,054	(19,234,934)
Operating expenses in excess of operating revenues	(76,685,320)	(94,306,624)	(17,621,304)
Nonoperating revenues (expenses):			
Federal operating assistance	3,043,120	3,356,760	313,640
Pass-through grant revenue	223,502	1,091,359	867,857
Pass-through grant expense	(307,502)	(2,382,548)	(2,075,046)
Investment income	200,000	62,029	(137,971)
Excess of nonoperating revenues over expenses	3,159,120	2,127,600	(1,031,520)
Transfers from DelDOT for operating purposes:			
State operating assistance	73,526,200	73,524,091	(2,109)
State pass-through grant revenue	—	1,153,770	1,153,770
Total transfers for operating purposes	73,526,200	74,677,861	1,151,661
Income before contributions and depreciation, net of gains on retirements on property and equipment	\$ —	(17,501,163)	(17,501,163)

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – All Modes

Year ended June 30, 2011

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
<b>Labor:</b>					
Operator salaries	\$ 20,839,143	—	—	—	20,839,143
Other salaries	2,906,041	4,537,284	425,671	6,656,167	14,525,163
	<u>23,745,184</u>	<u>4,537,284</u>	<u>425,671</u>	<u>6,656,167</u>	<u>35,364,306</u>
Fringe benefits	<u>23,631,698</u>	<u>4,453,493</u>	<u>492,903</u>	<u>7,865,298</u>	<u>36,443,392</u>
<b>Services:</b>					
Professional and technical	150,275	—	6,235	2,231,421	2,387,931
Contract and maintenance	—	1,158,504	2,075,873	233,016	3,467,393
Security	—	—	7,620	338,075	345,695
Other	37,392	12,925	82,628	220,673	353,618
	<u>187,667</u>	<u>1,171,429</u>	<u>2,172,356</u>	<u>3,023,185</u>	<u>6,554,637</u>
<b>Materials and supplies:</b>					
Fuel and lubes	8,503,459	115,204	—	—	8,618,663
Tires and tubes	405,870	4,539	—	—	410,409
Other materials	98,512	3,016,362	159,062	261,353	3,535,289
	<u>9,007,841</u>	<u>3,136,105</u>	<u>159,062</u>	<u>261,353</u>	<u>12,564,361</u>
Utilities	—	—	—	1,036,213	1,036,213
Insurance	—	—	—	5,760,624	5,760,624
Purchased transportation	11,092,297	—	—	—	11,092,297
<b>Miscellaneous expenses:</b>					
Dues and subscriptions	—	—	—	70,263	70,263
Travel and meetings	—	—	—	952,296	952,296
Advertising	—	—	—	426,667	426,667
Facilities	—	—	68,876	—	68,876
Other	—	—	—	115,122	115,122
	<u>—</u>	<u>—</u>	<u>68,876</u>	<u>1,564,348</u>	<u>1,633,224</u>
Total expenses	<u>\$ 67,664,687</u>	<u>13,298,311</u>	<u>3,318,868</u>	<u>26,167,188</u>	<u>110,449,054</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Fixed Route Directly Operated

Year ended June 30, 2011

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ 10,390,290	—	—	—	10,390,290
Other salaries	1,283,402	3,314,066	157,924	2,315,515	7,070,907
	<u>11,673,692</u>	<u>3,314,066</u>	<u>157,924</u>	<u>2,315,515</u>	<u>17,461,197</u>
Fringe benefits	<u>9,818,564</u>	<u>2,884,194</u>	<u>141,043</u>	<u>2,135,935</u>	<u>14,979,736</u>
Services:					
Professional and technical	59,736	—	2,407	845,818	907,961
Contract and maintenance	—	612,711	770,149	209,714	1,592,574
Security	—	—	2,941	130,497	133,438
Other	15,297	9,980	31,894	92,489	149,660
	<u>75,033</u>	<u>622,691</u>	<u>807,391</u>	<u>1,278,518</u>	<u>2,783,633</u>
Materials and supplies:					
Fuel and lubes	4,818,909	43,428	—	—	4,862,337
Tires and tubes	248,910	1,712	—	—	250,622
Other materials	42,175	2,350,942	61,398	103,676	2,558,191
	<u>5,109,994</u>	<u>2,396,082</u>	<u>61,398</u>	<u>103,676</u>	<u>7,671,150</u>
Utilities	—	—	—	399,978	399,978
Insurance	—	—	—	2,137,192	2,137,192
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	27,122	27,122
Travel and meetings	—	—	—	367,586	367,586
Advertising	—	—	—	381,711	381,711
Facilities	—	—	26,586	—	26,586
Other	—	—	—	44,437	44,437
	<u>—</u>	<u>—</u>	<u>26,586</u>	<u>820,856</u>	<u>847,442</u>
Total expenses	\$ <u>26,677,283</u>	<u>9,217,033</u>	<u>1,194,342</u>	<u>9,191,670</u>	<u>46,280,328</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Paratransit Directly Operated

Year ended June 30, 2011

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ 10,448,853	—	—	—	10,448,853
Other salaries	1,504,656	1,154,892	242,334	3,832,361	6,734,243
	<u>11,953,509</u>	<u>1,154,892</u>	<u>242,334</u>	<u>3,832,361</u>	<u>17,183,096</u>
Fringe benefits	<u>13,511,149</u>	<u>1,392,556</u>	<u>286,636</u>	<u>4,497,455</u>	<u>19,687,796</u>
Services:					
Professional and technical	86,283	—	3,477	1,221,834	1,311,594
Contract and maintenance	—	362,125	1,181,794	—	1,543,919
Security	—	—	4,249	188,511	192,760
Other	22,095	2,945	46,074	115,118	186,232
	<u>108,378</u>	<u>365,070</u>	<u>1,235,594</u>	<u>1,525,463</u>	<u>3,234,505</u>
Materials and supplies:					
Fuel and lubes	3,672,638	66,637	—	—	3,739,275
Tires and tubes	134,800	2,627	—	—	137,427
Other materials	51,572	585,865	88,693	142,700	868,830
	<u>3,859,010</u>	<u>655,129</u>	<u>88,693</u>	<u>142,700</u>	<u>4,745,532</u>
Utilities	—	—	—	577,792	577,792
Insurance	—	—	—	3,279,522	3,279,522
Purchased transportation	—	—	—	—	—
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	39,179	39,179
Travel and meetings	—	—	—	531,001	531,001
Advertising	—	—	—	2,484	2,484
Facilities	—	—	38,406	—	38,406
Other	—	—	—	64,192	64,192
	<u>—</u>	<u>—</u>	<u>38,406</u>	<u>636,856</u>	<u>675,262</u>
Total expenses	\$ <u>29,432,046</u>	<u>3,567,647</u>	<u>1,891,663</u>	<u>14,492,149</u>	<u>49,383,505</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Fixed Route Purchased Transportation

Year ended June 30, 2011

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ —	—	—	—	—
Other salaries	86,669	50,905	18,900	352,321	508,795
	<u>86,669</u>	<u>50,905</u>	<u>18,900</u>	<u>352,321</u>	<u>508,795</u>
Fringe benefits	<u>224,215</u>	<u>132,799</u>	<u>48,921</u>	<u>930,614</u>	<u>1,336,549</u>
Services:					
Professional and technical	4,256	—	267	113,887	118,410
Contract and maintenance	—	178,775	92,169	23,302	294,246
Security	—	—	327	14,503	14,830
Other	—	—	3,545	10,279	13,824
	<u>4,256</u>	<u>178,775</u>	<u>96,308</u>	<u>161,971</u>	<u>441,310</u>
Materials and supplies:					
Fuel and lubes	9,768	3,823	—	—	13,591
Tires and tubes	18,545	149	—	—	18,694
Other materials	3,451	68,045	6,824	11,522	89,842
	<u>31,764</u>	<u>72,017</u>	<u>6,824</u>	<u>11,522</u>	<u>122,127</u>
Utilities	—	—	—	44,454	44,454
Insurance	—	—	—	255,772	255,772
Purchased transportation	1,812,193	—	—	—	1,812,193
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	3,014	3,014
Travel and meetings	—	—	—	40,853	40,853
Advertising	—	—	—	42,412	42,412
Facilities	—	—	2,954	—	2,954
Other	—	—	—	4,939	4,939
	<u>—</u>	<u>—</u>	<u>2,954</u>	<u>91,218</u>	<u>94,172</u>
Total expenses	<u>\$ 2,159,097</u>	<u>434,496</u>	<u>173,907</u>	<u>1,847,872</u>	<u>4,615,372</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Paratransit Purchased Transportation

Year ended June 30, 2011

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ —	—	—	—	—
Other salaries	31,314	17,421	6,513	110,981	166,229
	<u>31,314</u>	<u>17,421</u>	<u>6,513</u>	<u>110,981</u>	<u>166,229</u>
Fringe benefits	<u>77,770</u>	<u>43,944</u>	<u>16,303</u>	<u>283,695</u>	<u>421,712</u>
Services:					
Professional and technical	—	—	84	35,862	35,946
Contract and maintenance	—	4,893	31,761	—	36,654
Security	—	—	103	4,564	4,667
Other	—	—	1,115	2,787	3,902
	<u>—</u>	<u>4,893</u>	<u>33,063</u>	<u>43,213</u>	<u>81,169</u>
Materials and supplies:					
Fuel and lubes	2,144	1,316	—	—	3,460
Tires and tubes	3,615	51	—	—	3,666
Other materials	1,314	11,510	2,147	3,455	18,426
	<u>7,073</u>	<u>12,877</u>	<u>2,147</u>	<u>3,455</u>	<u>25,552</u>
Utilities	—	—	—	13,989	13,989
Insurance	—	—	—	88,138	88,138
Purchased transportation	719,088	—	—	—	719,088
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	948	948
Travel and meetings	—	—	—	12,856	12,856
Advertising	—	—	—	60	60
Facilities	—	—	930	—	930
Other	—	—	—	1,554	1,554
	<u>—</u>	<u>—</u>	<u>930</u>	<u>15,418</u>	<u>16,348</u>
Total expenses	\$ <u>835,245</u>	<u>79,135</u>	<u>58,956</u>	<u>558,889</u>	<u>1,532,225</u>

See accompanying independent auditors' report.

**DELAWARE TRANSIT CORPORATION**

Schedule of Expenses by Mode – Rail

Year ended June 30, 2011

	<b>Vehicle operations (10)</b>	<b>Vehicle maintenance (41)</b>	<b>Nonvehicle maintenance (42)</b>	<b>General administration (160)</b>	<b>Totals</b>
Labor:					
Operator salaries	\$ —	—	—	—	—
Other salaries	—	—	—	44,989	44,989
	<u>—</u>	<u>—</u>	<u>—</u>	<u>44,989</u>	<u>44,989</u>
Fringe benefits	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,599</u>	<u>17,599</u>
Services:					
Professional and technical	—	—	—	14,020	14,020
Contract and maintenance	—	—	—	—	—
Security	—	—	—	—	—
Other	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,020</u>	<u>14,020</u>
Materials and supplies:					
Fuel and lubes	—	—	—	—	—
Tires and tubes	—	—	—	—	—
Other materials	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Utilities	—	—	—	—	—
Insurance	—	—	—	—	—
Purchased transportation	8,561,016	—	—	—	8,561,016
Miscellaneous expenses:					
Dues and subscriptions	—	—	—	—	—
Travel and meetings	—	—	—	—	—
Advertising	—	—	—	—	—
Facilities	—	—	—	—	—
Other	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses	<u>\$ 8,561,016</u>	<u>—</u>	<u>—</u>	<u>76,608</u>	<u>8,637,624</u>

See accompanying independent auditors' report.



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

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

We have audited the financial statements of the Delaware Transit Corporation (DTC), which is a subsidiary of the Delaware Transportation Authority, a blended component unit of the State of Delaware, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

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



The Board of Directors  
Delaware Transportation Authority  
Delaware Transit Corporation  
October 31, 2011  
Page 2 of 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether DTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of DTC in a separate letter dated October 31, 2011

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

**KPMG LLP**

October 31, 2011