STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

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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, 2011.

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 two bond issues during the fiscal year, raising a total of $126.3 million (including premium and net of issuance costs). $21.1 million was used to refund existing bonds, and the remainder will be used to fund the capital plan.
- Operating revenues increased by $18.1 million to $445.0 million during the fiscal year ended June 30, 2011, primarily from increased motor vehicle related revenues as a result of increased auto sales.
- Operating expenses decreased by $34.9 million to $547.1 million during the fiscal year ended June 30, 2011, primarily as a result of reduced capital preservation spending.
- Total capital assets (net of depreciation) increased $44.1 million to $3,943.6 million during fiscal 2011.

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.

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Financial Analysis of the Department

Balance Sheets

The Department's total assets were $4,509.9 million at June 30, 2011, compared to $4,373.2 million at June 30, 2010, and $4,287.6 million at June 30, 2009. Total liabilities were $1,468.5 million at June 30, 2011, compared to $1,403.5 million at June 30, 2010, and $1,338.1 million at June 30, 2009. Net assets at June 30, 2011 were $3,041.4 million, compared to $2,969.7 million at June 30, 2010, and $2,949.5 million at June 30, 2009.

Department of Transportation's Net Assets

		2011	2010	2009	Change 2011 – 2010	Change 2010 – 2009
				(In millions of dollars)		
Current assets	$	485.9	409.6	381.3	76.3	28.3
Capital assets		3,943.6	3,899.5	3,824.5	44.1	75.0
Other noncurrent assets		80.4	64.1	81.8	16.3	(17.7)
Total assets	$	4,509.9	4,373.2	4,287.6	136.7	85.6
Current liabilities	$	174.4	166.4	170.7	8.0	(4.3)
Noncurrent liabilities		1,294.1	1,237.1	1,167.4	57.0	69.7
Total liabilities	$	1,468.5	1,403.5	1,338.1	65.0	65.4
Net assets:						
Invested in capital assets, net of debt	$	2,840.6	2,803.6	2,727.6	37.0	76.0
Restricted		173.4	162.0	165.7	11.4	(3.7)
Unrestricted		27.4	4.1	56.2	23.3	(52.1)
Total net assets	$	3,041.4	2,969.7	2,949.5	71.7	20.2

The increase in current assets is attributed to the larger cash and cash equivalents balance as a result of delays in the capital program causing a decrease in capital spending during fiscal year 2011. The increase in 2010 is attributed to unspent bond proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bond issuance, which caused larger investment balances. The increase in other noncurrent assets in 2011 is due to holding longer term investments, while the decrease in other noncurrent assets in 2010 is primarily due to recording a loss of $20.3 million for the Department's loan to the Diamond State Port Corporation. The increase in total liabilities for fiscal years 2011 and 2010 is primarily due to an increase in revenue bonds payable and post-employment benefits payable.

Change in Net Assets

The Department's net assets at June 30, 2011 were $3,041.4 million, compared to $2,969.7 million at June 30, 2010, and $2,949.5 million at June 30, 2009. Operating revenues were $445.0 million, $426.9 million, and $426.0 million in fiscal years 2011, 2010, and 2009, respectively. Total operating expenses were $547.1 million, $582.0 million, and $561.7 million in fiscal years 2011, 2010, and 2009, respectively.

Change in the Department of Transportation's Net Assets

		2011	2010	2009	Change 2011 – 2010	Change 2010 – 2009
				(In millions of dollars)		
Operating revenues	$	445.0	426.9	426.0	18.1	0.9
Operating expenses:						
Operating expenses		522.6	559.0	540.4	(36.4)	18.6
Depreciation		24.5	23.0	21.3	1.5	1.7
Total operating expenses		547.1	582.0	561.7	(34.9)	20.3
Operating loss		(102.1)	(155.1)	(135.7)	53.0	(19.4)
Nonoperating revenues, net		151.8	176.6	158.7	(24.8)	17.9
Income (loss) before transfers		49.7	21.5	23.0	28.2	(1.5)
Transfers, net		22.0	(1.3)	(20.6)	23.3	19.3
Change in fund net assets		71.7	20.2	2.4	51.5	17.8
Total net assets – beginning of year		2,969.7	2,949.5	2,947.1	20.2	2.4
Total net assets – end of year	$	3,041.4	2,969.7	2,949.5	71.7	20.2

The increase in operating revenues from 2010 to 2011 is primarily attributed to an increase in motor vehicle and related revenues as a result of increased auto sales.

The decrease in total operating expenses from 2010 to 2011 is primarily a result of delayed capital preservation spending during the year. 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.

Nonoperating revenues decreased for fiscal year 2011 and increased for fiscal year 2010, primarily as a result of the receipt of additional federal grants in fiscal year 2010 under the American Recovery and Reinvestment Act. The increases in 2010 were partially offset by a decline in investment earnings related to overall economic conditions, and a loss of $20.3 million on the Department's loan to the Diamond State Port Corporation.

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Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the Department had invested $4,095.3 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2011 totaled $3,943.6 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of $44.1 million over June 30, 2010. The most significant contributor to this increase was the US Route 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.

Of the Department's 1,562 bridge structures that were rated in 2010, 72.8% received a good or better BCR rating, 20.0% were rated fair, and 7.2% received a substandard rating. Of the 7,341,988 square feet of bridge deck that was rated, 91.1% or 6,685,282 square feet received an OPC condition rating of good or better, 8.8% received a fair rating, and 0.1% received a substandard deck rating. In 2009, 4,360 centerline miles were rated; 91.7% received a fair or better OPC rating and 8.3% received a poor rating. No roadway condition assessment was performed for 2010.

The estimate to maintain and preserve the Department's infrastructure was $134.3 million, $102.2 million, and $208.8 million for 2011, 2010, and 2009, respectively. The actual expenditures were $252.6 million, $336.2 million, and $308.7 million for 2011, 2010, and 2009, 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, 2011, the Authority had $1,210.9 million in revenue bonds outstanding, a 2.3% increase from June 30, 2010. During fiscal year 2011, the Authority issued senior revenue bonds for $47.7 million and senior revenue Build America Bonds (BAB) for $72.1 million. The $47.7 million issuance provided for the advanced refunding of $20.6 million in existing bonds and $27.1 million in new money. Of the thirteen 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. The GARVEE Bond, 2010 Series, is uninsured and is 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 sheet 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, 2011 and 2010, and the related statements of revenue, expenses, and change in fund 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 audits.

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 audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only 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, 2011 and 2010, 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, 2011 and 2010, 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 January 17, 2012 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. We did not audit the information and express no opinion on it.

KPMG LLP

January 17, 2012

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Balance Sheets

June 30, 2011 and 2010

	2011	2010
Current assets:		
Cash and cash equivalents:		
Unrestricted	$ 51,970,581	40,826,299
Restricted	66,197,592	2,539,562
Investments – at fair value:		
Unrestricted	127,815,239	87,592,054
Restricted	185,341,783	234,806,892
Accrued interest receivable	694,941	487,572
Accounts receivable:		
Trade	14,029,912	11,287,097
Federal grant	21,492,406	15,227,084
Inventory	17,099,608	16,006,600
Bond issuance costs – net of accumulated amortization	263,205	226,029
Escrow insurance deposits	275,967	311,537
Prepaid expenses	684,217	281,854
Total current assets	485,865,451	409,592,580
Noncurrent assets:		
Capital assets, not depreciable:		
Land	276,760,943	276,760,943
Infrastructure	3,481,074,684	3,432,677,271
Capital assets, depreciable:		
Buildings and improvements	98,057,306	91,065,392
Fixtures and equipment	239,414,912	237,416,409
	4,095,307,845	4,037,920,015
Less: accumulated depreciation	151,675,900	138,453,475
Capital assets	3,943,631,945	3,899,466,540
Investments – at fair value:		
Unrestricted	12,749,614	10,157,658
Restricted	62,906,082	49,798,310
Bond issuance costs – net of accumulated amortization and current portion	2,182,781	2,101,043
Prepaid pension	2,604,418	2,058,306
Total noncurrent assets	4,024,074,840	3,963,581,857
Total assets	$ 4,509,940,291	4,373,174,437

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STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Balance Sheets

June 30, 2011 and 2010

		2011	2010
Current liabilities:			
Accounts payable and other accrued expenses	$	24,424,941	28,312,309
Accrued payroll		11,217,706	10,165,704
Compensated absences payable		4,844,436	4,335,979
Customer toll deposits		10,788,734	7,330,574
Pollution remediation obligations		644,000	2,021,500
Escrow deposit		5,710,805	2,499,285
Insurance loss reserve		4,130,201	3,242,448
Deferred revenue		—	2,983,466
General obligation bonds payable		346,503	663,330
Revenue bonds payable – net of deferred amounts on refunding		75,960,451	71,489,182
Bond issue premium – net of accumulated amortization		7,952,314	7,548,149
Interest payable		28,400,631	25,800,022
Total current liabilities		174,420,722	166,391,948
Noncurrent liabilities:			
Compensated absences – net of current portion		9,506,762	9,824,362
Return of federal funds		5,999,719	—
Insurance loss reserve – net of current portion		2,944,799	3,177,552
Post-employment benefits payable		111,335,102	79,697,691
Pollution remediation obligations – net of current portion		1,113,150	772,700
General obligation bonds payable – net of current portion		441,481	787,984
Revenue bonds payable – net of deferred amounts on refunding and current portion		1,133,291,243	1,110,523,675
Bond issue premium – net of accumulated amortization and current portion		29,450,245	32,296,132
Total noncurrent liabilities		1,294,082,501	1,237,080,096
Total liabilities		1,468,503,223	1,403,472,044
Net assets:			
Invested in capital assets – net of related debt		2,840,594,479	2,803,631,663
Restricted		173,444,181	161,999,283
Unrestricted		27,398,408	4,071,447
Total net assets		3,041,437,068	2,969,702,393
Total liabilities and net assets	$	4,509,940,291	4,373,174,437

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, 2011 and 2010

	2011	2010
Operating revenues:		
Pledged revenue:		
Turnpike revenues	$ 115,895,081	119,398,945
Motor vehicle and related revenue	256,717,953	241,432,581
Total pledged revenue	372,613,034	360,831,526
Toll revenue – Delaware SR-1	44,429,312	45,502,245
Passenger fares	13,962,917	13,474,002
Miscellaneous	14,079,110	7,116,242
Total operating revenues	445,084,373	426,924,015
Operating expenses:		
Maintenance, preservation, and repairs	149,807,593	197,538,182
Occupancy expenses	7,437,594	10,639,372
Office expense	9,847,473	6,628,960
Payroll expense	151,375,258	146,357,702
Professional fees	110,364,586	113,727,393
Supplies and other	20,260,000	18,667,142
Vehicle operations	73,547,139	65,480,635
Depreciation	24,523,551	23,051,664
Total operating expenses	547,163,194	582,091,050
Operating loss	(102,078,821)	(155,167,035)
Nonoperating revenues (expenses):		
Pledged revenue – income from investments	3,573,314	2,302,349
Income from investments	62,029	118,247
Net (decrease) increase in the fair value of investments	(973,326)	563,456
Loss on loan receivable	—	(20,297,835)
Bad debt recovery	788,914	—
Federal grant revenue	195,532,209	239,276,408
Grant expenses	(1,291,189)	(1,000,368)
Gain (loss) on asset disposal	587,412	(414,732)
Interest expense	(46,469,920)	(43,920,676)
Excess of nonoperating revenues over nonoperating expenses	151,809,443	176,626,849
Income before transfers	49,730,622	21,459,814
Transfers to State General Fund	(4,000,000)	(3,738,539)
Transfers to other state agencies	(1,229,290)	(644,179)
Transfers from State General Fund	27,233,343	3,111,602
Change in fund net assets	71,734,675	20,188,698
Total fund net assets – beginning of year	2,969,702,393	2,949,513,695
Total fund net assets – end of year	$ 3,041,437,068	2,969,702,393

See accompanying notes to financial statements.

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Operating receipts	$ 437,178,579	427,368,721
Payments to suppliers	(360,332,435)	(413,427,493)
Payments to employees	(119,041,100)	(120,496,989)
Insurance claims paid	(4,027,340)	(5,086,334)
Other receipts	2,179,513	1,862,436
Net cash used in operating activities	(44,042,783)	(109,779,659)
Cash flows from noncapital financing activities:		
Proceeds from State General Fund	27,233,343	3,111,602
Transfers to State General Fund	(4,000,000)	(3,738,539)
Transfers to other state agencies	(1,229,290)	(644,179)
Net cash provided by (used in) noncapital financing activities	22,004,053	(1,271,116)
Cash flows from capital and related financing activities:		
Payments of revenue bond principal	(71,760,000)	(74,380,000)
Payment to escrow agent for refunding of revenue bonds	(21,057,176)	—
Proceeds from revenue bond sale	119,835,000	113,490,000
Payments of general obligation bond principal	(663,330)	(655,587)
Premium from revenue bond sale	6,988,431	12,455,754
Federal reimbursement of debt service	7,801,534	—
Proceeds from capital grants	180,174,164	248,403,532
Bond issuance costs from revenue bond sale	(362,312)	(926,913)
Acquisition of capital assets	(68,817,301)	(99,276,779)
Proceeds from sale of land and equipment	715,757	820,877
Payments of interest	(52,835,053)	(50,971,923)
Net cash provided by capital and related financing activities	100,019,714	148,958,961
Cash flows from investing activities:		
Purchase of investments	(4,126,922,516)	(3,622,350,856)
Proceeds from sale of investments	4,119,491,386	3,573,707,668
Repayment on loan receivable	—	1,294,686
Collection on loans previously written off	788,914	—
Escrow insurance deposits	35,570	674,025
Interest received	3,427,974	2,701,146
Net cash used in investing activities	(3,178,672)	(43,973,331)
Net increase (decrease) in cash and cash equivalents	74,802,312	(6,065,145)
Cash and cash equivalents – beginning of year	43,365,861	49,431,006
Cash and cash equivalents – end of year	$ 118,168,173	43,365,861

(Continued)

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Reconciliation of operating loss to net cash used in operating activities:			
Net operating loss	$	(102,078,821)	(155,167,035)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation		24,523,551	23,051,664
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable		(2,742,815)	2,307,142
Increase in inventory		(1,093,008)	(1,196,494)
Increase in prepaid expenses		(402,363)	(28,290)
Increase in prepaid pension		(546,112)	(388,338)
Decrease in accounts payable and other accrued expenses		(3,887,368)	(2,946,228)
Increase (decrease) in accrued payroll and related expenses		1,242,859	(72,002)
Decrease in deferred revenue		(2,983,466)	—
Increase (decrease) in other accrued expenses		13,324,399	(1,590,331)
Decrease in pollution remediation obligation		(1,037,050)	(70,800)
Increase in post-employment benefits		31,637,411	26,321,053
Net cash used in operating activities	$	(44,042,783)	(109,779,659)
Supplemental disclosure of noncash investing and capital and related financing activities:			
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 bondholders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department.

The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in fiscal year 1995 as a subsidiary public 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, 2011 and 2010, 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 Financial Accounting Standards Board (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.

(Continued)

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’s Discussion and Analysis - for State and Local Governments*. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: (1) commit to maintaining and preserving affected assets at or above a condition level established by the Department; (2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and (3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

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

Buildings, improvements, fixtures, 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 $9,186,755 and $7,753,720 of reductions of interest expense in 2011 and 2010, respectively.

(k) Revenues and Expenses

The Department defines nonoperating revenues as federal grant revenue, investment income, and collections on loans previously written off. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses, interest expense, and loan losses. 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 years ended June 30, 2011 and 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, 2011 and 2010, 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 http://delcode.delaware.gov/title29/c061/index.shtml.

(b) Custodial Credit Risk

Deposits

The carrying amounts of the Department's deposits at June 30, 2011 and 2010 were $118,168,173 and $43,365,861, respectively, and the bank balances were $117,833,547 and $46,154,235, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, $107,624,343 and $36,758,591 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2011 and 2010, respectively. The remaining bank balances of $10,209,204 and $9,395,644 were neither insured nor collateralized at June 30, 2011 and 2010, respectively.

As of June 30, 2011 and 2010, the Department had part of its cash and cash equivalents of $9,375,910 and $4,040,756, 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, 2011 and 2010, 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, 2011.

		Investment maturities (in years)		
	Fair value	**Less than 1**	**1 – 5**	**6 – 10**
Investment type:				
U.S. government securities	$ 29,973,391	17,589,824	11,200,135	1,183,432
U.S. government agency securities	123,509,799	60,337,517	33,988,759	29,183,523
Commercial paper	235,329,528	235,229,681	99,847	—
	$ 388,812,718	313,157,022	45,288,741	30,366,955

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

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 $235,329,528 and $180,063,113 at June 30, 2011 and 2010, respectively. All commercial paper held was short-term and rated in accordance with the Trust Agreement. At June 30, 2011, the investments in U.S. government agency securities all carried the highest rating by Moody's and Standard & Poor's, and investments in U.S. government securities were considered risk-free. Subsequent to June 30, 2011, Standard & Poor's downgraded its credit rating on U.S. government and government agency securities from AAA to AA+. Standard & Poor's was the only major rating agency to downgrade U.S. government debt, and market participants have continued to invest in U.S. government securities. Management believes that the downgrade poses no additional risk to the Department.

Investments in Excess of 5%

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2011:

Federal National Mortgage Association	$	65,198,365	17%
Federal Home Loan Mortgage Corporation		58,311,163	15
BNP Paribas Finance Inc		29,207,828	8
General Electric Capital Corp		22,610,223	6

Investment Commitments

The Department has made no investment commitments as of June 30, 2011.

(4) Accounts Receivable

Accounts and loans receivable at June 30, 2011 and 2010 are detailed as follows:

		2011	2010
Receivables:			
Interest	$	694,941	487,572
Trade		14,029,912	11,287,097
Federal grant		21,492,406	15,227,084
Loans		—	—
Total receivables		36,217,259	27,001,753
Allowance for doubtful accounts		—	—
Total receivables – net of allowance	$	36,217,259	27,001,753
Amounts not scheduled for collection during the subsequent year	$	—	—

(5) Capital Assets

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

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 276,760,943	—	—	276,760,943
Infrastructure	3,432,677,271	48,397,413	—	3,481,074,684
Total capital assets not being depreciated	3,709,438,214	48,397,413	—	3,757,835,627
Capital assets being depreciated:				
Buildings and improvements	91,065,392	6,991,914	—	98,057,306
Fixtures and equipment	237,416,409	13,427,974	(11,429,471)	239,414,912
Total capital assets being depreciated	328,481,801	20,419,888	(11,429,471)	337,472,218
Less accumulated depreciation for:				
Buildings and improvements	25,315,162	2,712,624	—	28,027,786
Fixtures and equipment	113,138,313	21,810,927	(11,301,126)	123,648,114
Total accumulated depreciation	138,453,475	24,523,551	(11,301,126)	151,675,900
Total capital assets being depreciated, net	190,028,326	(4,103,663)	(128,345)	185,796,318
Capital assets, net	$ 3,899,466,540	44,293,750	(128,345)	3,943,631,945

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

Depreciation expense for fiscal years 2011 and 2010 was $24,523,551 and $23,051,664, respectively.

(Continued)

(6) Changes in Long-Term Liabilities

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

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds:					
Revenue bonds, gross	$ 1,183,365,000	119,835,000	(92,320,000)	1,210,880,000	76,320,000
Deferred amount on refunding	(1,352,143)	(610,702)	334,539	(1,628,306)	(359,549)
Revenue bonds, net	1,182,012,857	119,224,298	(91,985,461)	1,209,251,694	75,960,451
General obligation bonds	1,451,314	—	(663,330)	787,984	346,503
Bond issue premium, net of accumulated amortization	39,844,281	6,988,432	(9,430,154)	37,402,559	7,952,314
Insurance loss reserve	6,420,000	4,682,340	(4,027,340)	7,075,000	4,130,201
Post-employment benefits	79,697,691	44,513,618	(12,876,207)	111,335,102	—
Pollution remediation obligations	2,794,200	—	(1,037,050)	1,757,150	644,000
Return of federal funds	—	7,999,719	(2,000,000)	5,999,719	—
Compensated absences	14,160,341	243,972	(53,115)	14,351,198	4,844,436
Long-term liabilities	$ 1,326,380,684	183,652,379	(122,072,657)	1,387,960,406	93,877,905

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	6,162,334	(5,086,334)	6,420,000	3,242,448
Post-employment 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	169,982,215	(99,522,625)	1,326,380,684	89,300,588

(7) Return of Federal Funds

During fiscal years 1992 – 1995, the Department participated in the Federal Highway Administration's (FHWA) Right-of-Way (ROW) Revolving Fund program and received a total of $7,999,719 to be used for the Advanced Right-of-Way Corridor Preservation project on SR-1. One parcel of land was purchased using the ROW funds but was subsequently sold. Due to the inability of the Department to commence a qualifying project within the required 10 years of FHWA apportionment, the funds must be repaid to the FHWA.

The Department has agreed upon a payment plan with FHWA where all of the funds will be returned by the end of fiscal year 2015 in accordance with the years of obligation. The first payment of $2 million was paid in June 2011. $3 million is expected to be paid in July 2013 with the balance being paid in July 2015.

(8) General Obligation Bonds Outstanding

General obligation bonds outstanding at June 30, 2011 and 2010 are detailed as follows:

Sale #	Description and interest rates	Maturity date (fiscal year)	Balance outstanding June 30 2011	2010
194	GO 2005B, 5.00%	2015	$ 473,708	587,160
191	GO + Refunding 2004A, 3.00% – 6.00%	2014	45,050	60,066
188	GO Refunding 2003B, 4.00% – 5.00%	2012	216,376	698,388
185	GO + Refunding 2002A, 4.00% – 5.25%	2013	52,850	105,700
	Totals		787,984	1,451,314
	Less: current portion		346,503	663,330
	Long-term portion		$ 441,481	787,984

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, 2011 was as follows:

	Principal maturity	Interest maturity	Total
Year ending June 30:			
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
	$ 787,984	62,788	850,772

(9) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2011 and 2010 are detailed as follows:

Date of issue/ maturity	Amount of original issue	Description and fixed interest rates	Balance outstanding 2011	Balance outstanding 2010
Senior bonds:				
2000/2020	$ 83,995,000	Transportation System Senior Revenue Bonds, 2000 Series, 5.50%	$ —	3,910,000
2001/2021	85,000,000	Transportation System Senior Revenue Bonds, 2001 Series, 4.50% – 5.00%	—	24,415,000
2002/2022	173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 4.00% – 5.25%	94,215,000	98,245,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 4.50% – 5.00%	126,955,000	153,305,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 4.00% – 5.00%	145,205,000	149,330,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.25% – 5.00%	134,245,000	139,510,000
2006/2026	127,445,000	Transportation System Senior Revenue Bonds, 2006 Series, 3.50% – 5.00%	111,600,000	116,240,000
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A Series, 4.00% – 5.00%	70,945,000	79,280,000
2008/2028	84,720,000	Transportation System Senior Revenue Bonds, 2008A Series, 4.00% – 5.00%	77,275,000	82,450,000
2008/2029	117,875,000	Transportation System Senior Revenue Bonds, 2008B Series, 4.00% – 5.00%	114,135,000	117,875,000
2009/2029	105,315,000	Transportation System Senior Revenue Bonds, 2009A Series, 5.00%	105,315,000	105,315,000
2010/2019	47,715,000	Transportation System Senior Revenue Bonds, 2010A Series, 2.50% – 5.00%	47,715,000	—
2010/2030	72,120,000	Transportation System Senior Revenue Bonds, 2010B Series, 3.95% – 5.80%	72,120,000	—
GARVEE bonds:				
2010/2025	113,490,000	Transportation System Grant Anticipation Bonds, 2002 Series, 5.00%	111,155,000	113,490,000
		Total, gross	1,210,880,000	1,183,365,000
		Less: deferred amount on refunding	1,628,306	1,352,143
		Total, net	1,209,251,694	1,182,012,857
		Less: current portion	75,960,451	71,489,182
		Long-term portion	$ 1,133,291,243	1,110,523,675

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

	2011	2010
Assets:		
Current assets	$ 403,222,831	339,185,167
Capital assets	1,165,201,210	1,136,044,163
Other assets	77,838,477	62,057,011
Total assets	1,646,262,518	1,537,286,341
Liabilities:		
Current liabilities	133,648,057	127,283,194
Noncurrent liabilities	1,169,442,739	1,143,914,881
Total liabilities	1,303,090,796	1,271,198,075
Net assets:		
Invested in capital assets, net of related debt	62,163,744	40,209,286
Unrestricted	110,225,103	65,978,012
Restricted	170,782,875	159,900,968
Total net assets	$ 343,171,722	266,088,266

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

	2011	2010
Operating revenues (pledged against bonds)	$ 372,613,034	360,831,526
Other operating revenues	52,990,462	53,132,877
Depreciation expense	(192,217)	(194,012)
Other operating expenses	(340,281,682)	(342,875,428)
Operating income	85,129,597	70,894,963

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

	2011	2010
Nonoperating revenues (expenses):		
Investment income (pledged against bonds)	$ 3,573,314	2,302,349
Other investment (loss) income	(973,326)	601,545
Interest expense	(46,469,920)	(43,920,676)
Federal grants	7,801,534	—
Loss on note receivable	—	(20,297,835)
Bad debt recovery	788,914	—
Transfer from DelDOT	—	289,380
Transfer from State General Fund	27,233,343	3,111,602
Change in net assets	77,083,456	12,981,328
Beginning net assets	266,088,266	253,106,938
Ending net assets	$ 343,171,722	266,088,266

Condensed Statements of Cash Flows

	2011	2010
Net cash provided by (used in):		
Operating activities	$ 87,289,074	68,989,291
Noncapital financing activities	27,233,343	3,400,982
Capital and related financing activities	(41,402,170)	(29,420,776)
Investing activities	(901,969)	(44,727,514)
Net increase (decrease)	72,218,278	(1,758,017)
Beginning cash and cash equivalents	9,325,527	11,083,544
Ending cash and cash equivalents	$ 81,543,805	9,325,527

The Transportation System GARVEE Bonds have fixed interest rates and are limited obligations of the Authority secured by and payable solely from the annual federal appropriation for the State’s federal-aid transportation projects. On average, the State has been apportioned approximately $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 $235,628,520 and $200,199,267 in authorized but unissued revenue bonds at

(Continued)

June 30, 2011 and 2010, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2011 was as follows:

	Principal maturity	Interest maturity	Total
Year ending June 30:			
2012	$ 76,320,000	56,411,305	132,731,305
2013	83,230,000	52,211,545	135,441,545
2014	82,160,000	48,135,226	130,295,226
2015	82,650,000	44,187,406	126,837,406
2016	80,450,000	40,293,701	120,743,701
2017 – 2021	380,170,000	145,796,916	525,966,916
2022 – 2026	308,335,000	63,457,527	371,792,527
2027 – 2031	117,565,000	12,549,795	130,114,795
	$ 1,210,880,000	463,043,421	1,673,923,421

On December 9, 2010, the Trust Fund issued $47,715,000 of Transportation System Senior Revenue Bonds, 2010A Series to provide $27,155,000 in new proceeds for transportation projects and $20,560,000 for an advance refunding of the following Transportation System Senior Revenue Bonds:

2001 Series	$ 20,560,000

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $2,430,367 and a reduction of $2,631,383 in future debt service payments.

(10) 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, 2011 and 2010, the amount of defeased debt outstanding amounted to $62,106,800 and $151,610,621, respectively.

(11) Designated Net Assets

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

		2011	2010
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, 2011 and 2010, the DTC Transit Fund expended authorized appropriations amounting to $73,524,092 and $73,525,141, respectively. The remaining totals of budgeted appropriations to be paid in future periods are	$	164,289	162,180
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, 2011 and 2010 were $134,286,958 and $140,825,431, respectively. Unexpended appropriations have been designated for approved expenses and are classified as designated net assets in the amounts of		14,988,801	3,909,267
Total designated net assets	$	15,153,090	4,071,447

(12) Restricted Net Assets

Restricted net assets were as follows at June 30:

		2011	2010
Pension Funds:			
Prepaid DTC pension contributions	$	2,604,418	2,058,306
Rebate Fund:			
Amounts generated from operations to meet future arbitrage rebate requirements		994,570	461,864
Debt Service Funds:			
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments		101,774,934	94,910,090
Debt Reserve Funds:			
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments		68,013,371	64,529,014
Highway Beautification Funds:			
Amounts held in trust to be used for highway beautification		56,888	40,009
Total restricted net assets	$	173,444,181	161,999,283

(13) 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, 2011, 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, 2011, 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, 2011, DTC was still negotiating terms for a new contract with this union.

(14) 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 15). 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 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
2011	$ 11,816,997	8.30%	0.81%	8.09%	17.20%
2010	10,367,522	6.71	1.40	7.16	15.27
2009	11,153,123	6.68	2.20	6.99	15.87

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.

(15) 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	$ 1,111,548	535,681
Contributions made	1,111,468	1,081,793
Actuarial valuation date	7/01/10	1/01/11
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%

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 (liability)
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

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)
07/01/2008	$ 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

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)
01/01/2009	$ 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

(16) 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 17).

(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, 2011:

Retirees and beneficiaries receiving benefits	$	19,081
Terminated plan members entitled to but not yet receiving the benefits		2,018
Active eligible plan members		36,289
Total	$	57,388

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

Eligibility

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, 2011 and 2010, 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	—
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 not required to contribute in fiscal years 2011 and 2010, respectively. For fiscal year 2011, the State contribution in relation to the annual required contribution of the employer (ARC) totaled $182.3 million. The portion of the contribution allocated to the Department for fiscal year 2011 was $9.8 million. For fiscal year 2010, the State contribution in relation to the ARC totaled $171.5 million. The portion of the contribution allocated to the Department for fiscal year 2010 was $9.2 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 2011 and 2010 totaled $6.2 million and $5.6 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, 2010	$ 956.5	49.3
Annual required contribution	488.1	26.2
Interest on net OPEB obligation	48.2	2.6
Adjustment to annual required contribution	(38.5)	(2.1)
Annual OPEB cost	1,454.3	76.0
Employer contributions	(182.3)	(9.8)
Net OPEB obligation as of June 30, 2011	$ 1,272.0	66.2

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:			
6/30/11	$ 26.2	37%	$ 66.2
6/30/10	25.7	36	49.3
6/30/09	24.1	31	32.5

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

As of June 30, 2011, the most recent actuarial valuation date, the plan was 2.1% funded. The actuarial accrued liability for benefits was $6,769 million, and the actuarial value of assets was $144 million, resulting in an unfunded actuarial accrued liability (UAAL) of $6,625 million for the State. The covered payroll (annual payroll of active employees covered by the plan) was $1,787 million, and the ratio of the UAAL to the covered payroll was 371%.

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, 2011 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 9% with an ultimate rate of 4.25%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

(17) DTC Post-Employment 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, 2011:

Retirees and beneficiaries receiving benefits	83
Terminated plan members entitled to but not yet receiving the benefits	29
Active eligible plan members	787
Total	899

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.

(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 were $1,042,565 and $865,354 for the years ended June 30, 2011 and 2010, 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 $0.23 per month per $1,000 of coverage for each employee.

(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 2011 and the preceding year, the amount actually contributed to the plan, and DTC's net OPEB obligation:

Net OPEB obligation at 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)
Net OPEB obligation before contributions		32,751,000
Contributions made		(865,000)
Prefunding trust contribution		(1,500,000)
Net OPEB obligation as of June 30, 2010	$	30,386,000
Net OPEB obligation as of 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		(1,170,000)
Net OPEB obligation before contributions		46,158,000
Contributions made		(1,043,000)
Prefunding trust contribution		—
Net OPEB obligation as of June 30, 2011	$	45,115,000

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:			
6/30/11	$ 15,772,000	6.61%	$ 45,115,000
6/30/10	11,810,000	20.02	30,386,000
6/30/09	11,702,000	6.87	20,941,000

(e) 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 plan assets as of 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 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 July 1, 2010 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a partially funded 4% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8% 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 UAAL is being amortized as a level percentage of payroll over a 30-year amortization period.

(18) Commitments and Contingencies

(a) Construction Commitments

The Department had contractual commitments of $262,826,587 and $280,655,996 for construction of various highway projects at June 30, 2011 and 2010, 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

GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Department to search for pollution, it does require the Department to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- 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. GASB requires the Department to calculate pollution remediation liabilities using the expected cash flow technique. Where the Department cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the Department has not identified any of these situations.

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

During fiscal years 2011 and 2010, 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 2011, the liability initially recorded was reduced by $1,037,050 due to revised cost estimates. At June 30, 2011 and 2010, the Department had an outstanding pollution remediation liability of $1,757,150 and $2,794,200, respectively.

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

For 2003 and subsequent years, DTC changed its auto insurance coverage whereby they established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for coverage amounts in excess of the self-insured retention thresholds. DTC established initial loss reserve insurance liabilities for each of the years based upon actuarially determined valuations assuming DTC's maximum liability exposure to be $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	***
2011		3,372,000	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 these years, DTC is self-insured with no commercial coverage.

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

		2011	2010
Auto loss reserve remaining for fiscal year:			
2011	$	3,095,000	—
2010		2,291,000	2,778,000
2009		872,000	1,844,000
2008		644,000	1,097,000
2007		116,000	572,000
2006		34,000	80,000
2005		12,000	20,000
2004		7,000	17,000
2003		—	8,000
2001		4,000	4,000
	$	7,075,000	6,420,000

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

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

(20) 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 $277,263 and $290,342 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	$	247,456
2013		242,593
2014		156,167
2015		126,400
2016		54,550
2017 – 2020		7,200
	$	834,366

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, 2011 and 2010, DTC incurred expenses related to this lease of $248,578 and $168,583, respectively.

(21) 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:

		2011	2010
Amounts transferred to the Revenue Fund:			
Division of Revenue, Motor Vehicle Dealer/Lessor license and document fees	$	—	153,239
Amounts transferred to the Trust Fund:			
Division of Motor Vehicles		2,950,000	2,842,000
Division of Revenue, Motor Vehicle Dealer/Lessor license and document fees		283,343	116,363
Supplemental appropriation from fiscal year Bond Bill		14,000,000	—
Supplemental appropriation from fiscal year Grant-in-Aid Bill		10,000,000	—
	$	27,233,343	3,111,602

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

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

	BCR condition rating	Structural rating numbers and percentages for bridges 2010 Number	2010 Percentage	2009 Number	2009 Percentage	2008 Number	2008 Percentage
Good	6 – 9	1,137	72.8%	1,144	73.5%	1,118	74.1%
Fair	5	313	20.0	295	19.0	291	19.3
Poor	0 – 4	112	7.2	117	7.5	100	6.6
Totals		1,562	100.0%	1,556	100.0%	1,509	100.0%

	OPC condition rating	Deck rating numbers and percentages for bridges 2010 Square feet	2010 Percentage	2009 Square feet	2009 Percentage	2008 Square feet	2008 Percentage
Good	6 – 9	6,685,282	91.1%	6,800,531	92.8%	6,799,842	93.0%
Fair	5	651,712	8.8	510,306	6.9	485,635	6.6
Poor	0 – 4	4,994	0.1	19,558	0.3	26,253	0.4
Totals		7,341,988	100.0%	7,330,395	100.0%	7,311,730	100.0

	OPC condition rating	Centerline mile numbers and percentages for roadways 2009 Centerline mile	2009 Percentage	2008 Centerline mile	2008 Percentage	2007 Centerline mile	2007 Percentage
Good	3.0 – 5.0	3,423	78.5%	3,007	67.6%	3,071	68.9%
Fair	2.5 – 3.0	575	13.2	1,000	22.5	935	21.0
Poor	Below 2.5	362	8.3	440	9.9	448	10.1
Totals		4,360	100.0%	4,447	100.0%	4,454	100.0%

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

	2011	2010	2009	2008	2007
Estimated	$ 134,335	102,183	208,764	197,301	129,138
Actual	252,646	336,214	308,732	271,333	256,571

* 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.

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.

See accompanying independent auditors' report.

ADDITIONAL INFORMATION

STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION

Schedule of Revenue Bond Coverage

June 30, 2011

(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			Coverage*
		Principal	Interest	Total	
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	363,948	74,380	50,885	125,265	2.91
2011	376,186	71,760	52,585	124,345	3.03

* 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.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

The Honorable Governor and Honorable Members of the State Legislature
State of Delaware, Department of Transportation
Dover, Delaware:

We have audited the financial statements the State of Delaware Department of Transportation (the Department), which is an Enterprise Fund of the State of Delaware, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 17, 2012. The financial statements present only the Department and do not purport to, and do not present fairly the financial position of the State of Delaware, as of June 30, 2011, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles. 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 the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department'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 the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency in the Department's internal control over financial reporting described in the accompanying schedule of findings and responses to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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.*

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Department's response and, accordingly, we express no opinion on it.

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

January 17, 2012

STATE OF DELAWARE DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Responses

Year ended June 30, 2011

2011-1. Financial Reporting

Background/Condition

Prior Year Observation

The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, for the Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Transportation Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

There is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

Additionally, as the State of Delaware is a complex organization with a significant amount of transactions occurring between State agencies, accounting for these transactions requires constant communication between agencies in order to properly record the financial position of each agency. Information for other post employment benefits and pollution remediation obligation was not available timely from other State agencies.

Current Year Status

With the implementation of the First State Financials (FSF) accounting system, there were significant delays with the completion of tasks related to financial reporting. The Department did not perform reconciliations from subledgers to the general ledger throughout the year, or at year-end to ensure that FSF general ledger was complete and accurate. The FSF system balance sheet functionality was not utilized during the year to assist in preparing financial reporting schedules. Instead the same methodology was used as in prior year's which included rolling forward revenue and expense transactions to prepare the financial statements. As a result, the Department had difficulty reconciling cash at year-end due to lack of understanding of FSF and not performing routine reconciliations.

Furthermore, there is still significant reliance on one key individual and dependence on timely communication between State agencies.

Criteria

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

In order to ensure such information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be properly designed, in place, and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP and that the State's assets are appropriately safe-guarded.

Cause

The First State Financials (FSF) accounting system is a cash-basis financial management system that has the ability and the flexibility to accommodate modified and full accrual accounting. However, the State of Delaware is not utilizing the functionality available to accommodate the modified and full accrual accounting. Additionally, it is difficult to obtain ad-hoc reports for financial reporting and analysis. The system does not easily identify, by fund, what cash balances are held by the Treasurer's office. As a result, reports utilized from FSF require significant manual manipulation through spreadsheets to develop the trial balances and related financial statements.

Effect

Due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendation

We recommend that the Department develop, for the 2012 audit cycle, the following:

- A monthly closing process and timetable including account reconciliations and resolution of identified reconciling items that is completed within 3 weeks after each month end
- A detailed list of balances (other than those in the Transportation Trust Fund) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances
- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed
- Interim review process to evaluate data before year end to identify any issues and correct them before year end close, including communicating with other State agencies with whom the Department may have transactions that require additional accounting considerations
- A periodic monitoring process to ensure adherence to the timetable

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules and documentation to others within the accounting function
- Provide for an independent review of information for completeness, accuracy and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor
- Review data throughout the year for completeness and accuracy

Views of Responsible Official

Management agrees that, with the implementation of the new state-wide financial system, numerous unforeseen issues have presented themselves and we are working diligently to resolve them and implement changes which should improve the reporting process, specifically:

1. Management has implemented monthly account reconciliations and resolution processes.
2. DelDOT is reaching out to the State Division of Accounting (DOA) to discuss potential modifications to the existing First State Financials (FSF) reporting capabilities to better meet DelDOT needs.
3. Once the DOA and DelDOT have agreed on specific reports, they would be available to DelDOT personnel on a regular monthly basis.
4. DelDOT will make periodic interim reviews of accounting data to detect and correct errors before the end of the fiscal year.
5. DelDOT will make every effort to adhere to timetables established for monitoring of accounting data.
6. DelDOT is launching a new effort to cross train personnel that are associated with the accounting and audit processes and to distribute some of the responsibilities to others.
7. DelDOT will continue to monitor and review accounting data for completeness and accuracy as it relates to the compilation and audit of our financial information.