DELAWARE TRANSIT CORPORATION

Financial Statements
June 30, 2018

(With Independent Auditors' Report Thereon)

Delaware Transit Corporation

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Independent Auditors' Report

The Board of Trustees
Delaware Transportation Authority
Delaware Transit Corporation
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Transit Corporation, a blended component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, which comprise the balance sheet as of June 30, 2018, and the related statement of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Transit Corporation as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 (l) to the financial statements, the Delaware Transit Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management Discussion and Analysis and Required Supplementary Information, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of revenue and expenses compared to budget and schedules of expenses by mode are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of revenue and expenses compared to budget and schedules of expenses by mode is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we also have issued our report dated November 30, 2018 on our consideration of the Delaware Transit Corporation'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 the 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 effectiveness of the Delaware Transit Corporation's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Delaware Transit Corporation's internal control over financial reporting and compliance.

KPMG LLP

Harrisburg, Pennsylvania
November 30, 2018

Delaware Transit Corporation
Management's Discussion and Analysis
June 30, 2018

This section of the Delaware Transit Corporation's (DTC) annual financial statements presents our discussion and analysis of DTC's financial performance during the Fiscal Year Ended June 30, 2018.

Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates the Delaware Administration for Regional Transit (DART) First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of DART, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 247 fixed route and 298 paratransit vehicles on over 63 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 38 park-and-ride lots and 12 park-and-pool lots with an estimated 5,339 parking spaces. DTC maintains approximately 2,530 bus stops throughout the State of Delaware (the State), with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carried over 9.3 million riders.

Financial Highlights

- The 2018 operating revenues were approximately $20.4 million and were $0.1 million less than 2017 operating revenues. The decrease is due to a decrease in miscellaneous and auxiliary transportation revenue, offset by an increase in passenger revenue.

- Total 2018 operating expenses before depreciation were approximately $130.7 million and were $7.1 million higher than 2017 operating expenses. The increase in operating expenses before depreciation is largely due to retroactive union contract payments of wages and payroll-related costs and an increase in insurance and contracted service costs.

- A $19.4 million investment was made in capital assets during the current year (the funding was $9.7 million in state capital grants and $9.7 million in federal capital grants). This is primarily attributable to the purchase of revenue vehicles, facility construction and renovations, communication equipment, and the purchase and installation of bus stop shelters.

Overview of the Financial Statements

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

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

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

Financial Analysis

Statements of Net Position

Total assets increased 0.3% to $167.0 million in 2018. Total liabilities increased 23.7% to $184.7 million in 2018. Total net position (deficit) at June 30, 2018 was a deficit of $34.4 million, a 257.8% decrease from June 30, 2017. The decrease in net position from 2017 was primarily due to the adoption of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* as of July 1, 2017, which resulted in the recognition of deferred outflows of resources of $3.6 million, an increase in net OPEB liability of $44.7 million, and a decrease in net position of $41.1 million.

Condensed Financial Information - Delaware Transit Corporation
Statements of Net Position as of June 30
(Dollars expressed in millions)

	2018	2017	Percentage Change 2018 - 2017
Current assets	$ 44.0	$ 42.2	4.3
Capital assets, net	123.0	123.7	(0.6)
Other noncurrent assets	-	0.6	(100.0)
Total assets	167.0	166.5	0.3
Deferred outflows of resources	6.2	6.1	1.6
Current liabilities	12.2	11.7	4.3
Noncurrent liabilities	172.5	137.6	25.4
Total liabilities	184.7	149.3	23.7
Deferred inflows of resources	22.9	1.5	1,426.7
Net position (deficit)			
Net investment in capital assets	123.0	123.7	(0.6)
Unrestricted deficit	(157.4)	(101.9)	54.5
Total net position (deficit)	$ (34.4)	$ 21.8	(257.8)

Other noncurrent assets decreased $0.6 million due to a decrease in noncurrent investments. The increase in total liabilities was due to an increase in net OPEB liability, which increased $36.4 million to $159.6 million due to DTC not fully funding the annual required contribution.

Changes in Net Position

The decrease in net position as of June 30, 2018 was approximately $56.2 million, which is a decrease in net position of 257.8% over 2017. Total operating revenues decreased 0.5% to approximately $20.4 million in 2018. Total operating expenses increased 5.2% to approximately $150.8 million in 2018.

Condensed Financial Information - Delaware Transit Corporation
Changes in Net Position for the Fiscal Years Ended June 30
(Dollars expressed in millions)

	2018	2017	Percentage Change 2018 - 2017
Operating revenues			
Passenger revenue	$ 18.0	$ 17.6	2.3
Other operating revenues	2.4	2.9	(17.2)
Total operating revenues	20.4	20.5	(0.5)
Operating expenses			
Operating expenses	130.7	123.6	5.7
Depreciation	20.1	19.7	2.0
Total operating expenses	150.8	143.3	5.2
Operating loss	(130.4)	(122.8)	6.2
Nonoperating revenues, net	3.4	3.2	6.3
Capital contributions	9.7	10.1	(4.0)
Transfers from DelDOT	102.2	104.0	(1.7)
Change in net position	(15.1)	(5.5)	174.5
Total net position - beginning of year, as previously stated	21.8	27.3	(20.1)
Prior period adjustment - implementation of GASB No. 75	(41.1)	-	-
Total net position (deficit) - beginning of year, as restated	(19.3)	27.3	(170.7)
Total net position (deficit) - end of year	$ (34.4)	$ 21.8	(257.8)

The increase in total operating expenses in 2018 is due to retroactive union contract payments of wages and payroll-related costs, an increase in insurance cost, and contracted services cost.

Capital contributions decreased $0.4 million during 2018 due to DTC's timing and/or production delays in the purchase of replacement and expansion of revenue vehicles.

Capital Assets

As of June 30, 2018 and 2017, DTC had $269.4 million and $254.9 million, respectively, invested in capital assets, which included land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's net capital assets at June 30, 2018 and 2017 totaled $123.0 million and $123.7 million, respectively.

Net capital assets decreased $0.7 million during the Fiscal Year Ended June 30, 2018. The decrease in capital assets for the Fiscal Year Ended June 30, 2018 is primarily attributed to the acquisition of revenue vehicles and communications equipment, facility construction and renovations, and the purchase and installation of bus stop shelters totaling $19.4 million, offset by depreciation expense of $20.1 million.

Assets disposed of during 2018 totaled $4.9 million. Disposals related primarily to the replacement of revenue vehicles and the disposal of communications equipment that was determined to be obsolete or no longer able to support operational needs.

Economic Factors and Next Year's Budget

DTC submits their operating and capital budgets as part of DelDOT's submission to the General Assembly. DTC's Fiscal Year 2019 operating and capital budgets have been authorized by the General Assembly to meet the demand for core transit services in the State. The Fiscal Year 2019 total operating budget is $122.3 million, which is 2.9% higher than Fiscal Year 2018's operating budget. The capital budget is $90.5 million, which authorizes funding for purchases of replacement and expansion transit vehicles, facility construction, and rail projects.

DTC provides post-retirement healthcare benefits to all employees who retire from DTC after meeting eligibility requirements. The pay-as-you-go cash basis costs associated with these benefits was $2.3 million and $3.6 million for the Fiscal Years Ended June 30, 2018 and 2017, respectively. The impact on the financial statements was the recognition of $15.7 million and $14.4 million in benefit expenses for the Fiscal Years Ended June 30, 2018 and 2017, respectively.

Contacting DTC's Financial Management

This financial report is designed to provide interested parties with a general overview of DTC's finances and to demonstrate DTC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Delaware Transit Corporation, 900 Public Safety Boulevard, Dover, Delaware 19901-4503.

Delaware Transit Corporation
Statement of Net Position
June 30, 2018

Assets

Current assets	
Cash and cash equivalents	$ 22,202,627
Investments - at fair value, unrestricted	15,254,219
Accounts receivable	
Trade	991,502
Federal	84,138
State	1,105,660
Inventory	4,105,790
Escrow insurance deposits	134,864
Prepaid expenses	73,505
Total current assets	43,952,305
Noncurrent assets	
Capital assets, nondepreciable	
Land	1,872,536
Capital assets, depreciable	
Buildings and improvements	79,566,443
Fixtures, vehicles, and equipment	187,936,014
Total capital assets	269,374,993
Less: accumulated depreciation	(146,345,264)
Total capital assets, net	123,029,729
Total noncurrent assets	123,029,729
Total assets	166,982,034
Deferred outflows of resources	
Pension and OPEB contributions made after the measurement date	4,606,300
Net difference between projected and actual earnings on pension plan and OPEB trust investments	219,347
Change in assumptions - pension plans	1,338,701
Total deferred outflows of resources	6,164,348

(Continued)

Delaware Transit Corporation
Statement of Net Position
June 30, 2018

Liabilities and Net Position

Current liabilities	
Accounts payable and other accrued expenses	$ 6,276,992
Accrued payroll and related expenses	2,976,669
Insurance loss reserve	1,862,842
Compensated absences	1,043,169
Total current liabilities	12,159,672
Noncurrent liabilities	
Compensated absences - net of current portion	2,012,038
Insurance loss reserve - net of current portion	7,316,158
Net other post-employment benefits liability	159,610,801
Net pension liability	3,518,968
Total noncurrent liabilities	172,457,965
Total liabilities	184,617,637
Deferred inflows of resources	
Differences between projected and actual earnings on pension plan investments	1,225,678
Differences between expected and actual experience - pension plan and OPEB trust	2,456,752
Change in assumptions - OPEB plan	19,230,206
Total deferred inflows of resources	22,912,636
Net position (deficit)	
Investment in capital assets	123,029,729
Unrestricted deficit	(157,413,620)
Total net position (deficit)	$ (34,383,891)

See accompanying notes to financial statements.

Delaware Transit Corporation
Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Year Ended June 30, 2018

Operating revenues	
Passenger fares	$ 18,029,965
Advertising	621,397
Miscellaneous	898,587
Auxiliary transportation	880,007
Total operating revenues	20,429,956
Operating expenses	
Payroll expense	91,014,151
Professional fees and services	22,627,353
Materials and supplies	11,451,973
Office and miscellaneous	5,620,464
Total operating expenses before depreciation	130,713,941
Depreciation	20,089,463
Total operating expenses	150,803,404
Operating loss	(130,373,448)
Nonoperating revenues (expenses)	
Income from investments	194,831
Bad debt expense	(50,000)
Federal operating assistance	6,380,646
Pass-through grant revenues	1,861,445
Pass-through grant expenses	(4,953,210)
Excess of nonoperating revenues over nonoperating expenses	3,433,712
Loss before contributions and transfers	(126,939,736)
Capital contributions	9,689,134
Transfers from DelDOT	102,177,731
Decrease in fund net position	(15,072,871)
Net position (deficit), beginning of the year, as restated (Note 2(l))	(19,311,020)
Net position (deficit), end of year	$ (34,383,891)

See accompanying notes to financial statements.

Delaware Transit Corporation
Statement of Cash Flows
Fiscal Year Ended June 30, 2018

Cash flows from operating activities	
Receipts from passengers	$ 17,884,546
Payments to suppliers	(36,414,080)
Payments to employees	(74,065,593)
Insurance claims paid	(5,238,066)
Other receipts	2,349,991
Net cash used in operating activities	(95,483,202)
Cash flows from noncapital financing activities	
Federal operating subsidies	6,380,646
Pass-through grant revenue	1,861,445
Pass-through grant payments	(4,953,210)
Transfers from DelDOT	92,382,282
Net cash provided by noncapital financing activities	95,671,163
Cash flows from capital and related financing activities	
Proceeds from capital contributions	10,075,524
Transfers from DelDOT - capital	8,899,594
Acquisition of capital assets	(19,361,990)
Net cash used in capital and related financing activities	(386,872)
Cash flows from investing activities	
Net purchases of investments	(203,998)
Payments to insurance escrow account	(74,786)
Interest received	194,831
Net cash used in investing activities	(83,953)
Net decrease in cash and cash equivalents	(282,864)
Cash and cash equivalents - beginning of year	22,485,491
Cash and cash equivalents - end of year	$ 22,202,627

(Continued)

Delaware Transit Corporation
Statement of Cash Flows
Fiscal Year Ended June 30, 2018

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (130,373,448)
Adjustment to reconcile operating loss to net cash used in operating activities	
Depreciation	20,089,463
Changes in assets and deferred outflows of resources	
Increase in trade accounts receivable	(195,419)
Increase in inventory	(507,940)
Decrease in prepaid expenses	11,419
Decrease in deferred outflows of resources	3,504,816
Changes in liabilities and deferred inflows of resources	
Increase in accounts payable and other accrued expenses	1,020,031
Decrease in insurance loss reserve	(272,000)
Increase in compensated absences	33,538
Increase in accrued payroll and related expenses	256,538
Decrease in net pension liability	(2,102,646)
Decrease in net other post-employment benefits liability	(8,317,162)
Increase in deferred inflows of resources	21,369,608
Net cash used in operating activities	$ (95,483,202)

See accompanying notes to financial statements.

(1) Authorizing Legislation

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, Delaware Transit Corporation (DTC) was created on November 17, 1994 as a subsidiary public corporation of the Delaware Transportation Authority (the Authority). The Authority provides significant operational subsidies to DTC annually. DTC is authorized to operate the public transportation system within the State of Delaware (the State).

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

(2) Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

DTC (the reporting entity) is a subsidiary public corporation and a blended component unit of the Authority. As a result of the Authority's relationship with the State, DTC's financial statements are included in the comprehensive annual financial report of the State in accordance with accounting principles generally accepted in the United States of America (GAAP).

DTC operates as a special-purpose government engaged solely in business-type activities. DTC'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. Operating revenues and expenses generally result from providing services in connection with DTC's ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are recorded as nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is DTC's policy to first apply the expense towards restricted resources and then towards unrestricted resources.

(b) Management Estimates

The preparation of financial statements in conformity with GAAP 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.

(c) Cash and Cash Equivalents

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

(d) Allowance for Doubtful Accounts

Accounts receivable consist of short-term receivables that arise in the normal course of business. Accounts are generally considered past due after 30 days and do not accrue interest.

Management determines the allowance for doubtful accounts based upon prior experience and its assessment of the collectibility of specific accounts. At June 30, 2018, the allowance for doubtful accounts receivable approximates $5,000. Uncollectible accounts receivable are charged off when management determines that all reasonable collection efforts have been exhausted.

(e) Inventory

Inventory consists of equipment parts for revenue and service vehicles and fuel. Inventory is stated at the lower of cost or market value determined using the average cost method.

(f) Investments

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

(g) Capital Assets

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

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

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

(h) Capital Contributions and Transfers

Capital contributions arise from State and federal grants generally restricted to capital acquisition. Most capital grants and contributions are in the form of cash, which is then used to purchase capital assets or fund other approved uses.

DTC receives transfers from DelDOT, including subsidy amounts received for operating assistance, pass-through grant revenue, and capital funding for the purchase of capital assets.

(i) Compensated Absences

Compensated absences are absences for which DTC employees will be paid, such as vacation, sick leave, and certain other qualifying absences. The number of days compensated for various absence categories is generally based on length of service. 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 DTC and its employees is accrued as employees earn the right to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of DTC and its employees are accounted for in the period in which such services are rendered or such events take place.

(j) Deferred Outflows of Resources and Deferred Inflows of Resources

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

(k) Revenues and Expenses

Passenger fare revenues are recorded as revenue at the time services are provided to passengers. Revenues from DART cards are recognized at the point of sale.

DTC defines nonoperating revenues as federal operating subsidies, pass-through grant revenues, investment income, capital contributions, and transfers from DelDOT. All other revenues are derived from the normal operations of DTC. Nonoperating expenses are primarily composed of pass-through grant expenses. All other expenses are a result of normal operations.

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

(l) Adoption of Governmental Accounting Standards Board Statements

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. DTC adopted GASB No. 75 as of June 30, 2017, the earliest period practical. The impact on DTC's beginning net position is as follows:

Net position, beginning of year	$ 21,836,006
Prior period adjustment - implementation of GASB No. 75	
Net OPEB liability	(44,719,212)
Deferred outflows - OPEB contributions made during Fiscal Year 2017	3,572,186
Total prior period adjustment	(41,147,026)
Net position (deficit), beginning of year, as restated	$ (19,311,020)

(3) Deposits and Investments

(a) Cash Management Policy and Investment Guidelines

Cash Management Policy Board

DTC follows the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) of the State’s Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for investment of all money belonging to the State or on deposit from its political subdivisions, other than money deposited in any State Pension Fund or the State Deferred Compensation Program and to determine the terms, conditions, and other matters relating to those investments, including the designation of permissible investments (29 De.C. §2716(a)). By law, all deposits and investments belonging to the State are under the control of the State Treasurer in various pooled investment funds (State Investment Pool) except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board.

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

Investment Guidelines and Management

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

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

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

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

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

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

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

(b) Custodial Credit Risk

Cash and Cash Equivalents

Cash and cash equivalents, as reported on the Statement of Net Position, are under the control of DTC. DTC maintains all of its cash and cash equivalents with one financial institution. The carrying amounts of DTC's deposits at June 30, 2018 were $22,202,627 and the bank balances were $22,345,511. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. The bank balances of $22,345,511 at June 30, 2018 were covered up to $250,000 by the Federal Deposit Insurance Corporation and the remainder by collateral held by DTC's Trustee, in DTC's name.

Investments

At June 30, 2018, all of DTC's investments were insured or registered, with securities held by DTC or the counterparty in DTC's name.

DTC measures and records its investments using fair value measurement guidelines. These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

	Assets at Fair Value at June 30, 2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments measured at fair value				
U.S. government securities	$ -	$ 1,221,486	$ -	$ 1,221,486
U.S. government agency securities	-	6,494,047	-	6,494,047
Commercial paper	-	7,538,686	-	7,538,686
	$ -	$ 15,254,219	$ -	$ 15,254,219

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in DTC 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, 2018:

		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**
U.S. government securities	$ 1,221,486	$ 1,221,486	$ -	$ -
U.S. government agency securities	6,494,047	6,494,047	-	-
Commercial paper	7,538,686	7,538,686	-	-
Total investments	$ 15,254,219	$ 15,254,219	$ -	$ -

(d) Credit Risk

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

The Policy requires that investments in:

- Certificates of deposit and time deposits be with a banking institution with assets of not less than $100 billion that is rated not lower than A1/P-1/F1 short term by at least two rating agencies;
- Money market funds be invested solely in government securities that are rated in the highest rating category by at least one rating agency;
- Asset-backed securities have the highest credit rating from at least two rating agencies; and
- Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S&P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

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

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

DTC's investments carry ratings that are in compliance with the Policy.

(e) Investments in Excess of 5%

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

The Policy provides that the purchase of securities cannot exceed the following percentage of account limitations, valued at market.

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

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

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

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

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

F. Money market funds - no restrictions.

G. Canadian treasuries - 25% in total.

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

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

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2018:

Federal National Mortgage Association	$ 3,040,879	20%
Federal Home Loan Bank	$ 2,848,224	19%
United States Treasury	$ 1,221,486	8%

(f) Investment Commitments

DTC has made no investment commitments as of June 30, 2018.

(g) Funding of Unpaid Loss Insurance Reserve Liability

Included in cash at June 30, 2018 was $9,044,136, which will be utilized to fund the remaining loss insurance reserve liability (Note 12), net of escrow insurance deposits.

(4) Capital Assets

Capital asset activity for the Fiscal Year Ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset not being depreciated				
Land	$ 1,872,536	$ -	$ -	$ 1,872,536
Total capital asset not being depreciated	1,872,536	-	-	1,872,536
Capital assets being depreciated				
Buildings and improvements	72,311,738	7,254,705	-	79,566,443
Revenue vehicles	143,169,806	8,618,983	(4,772,432)	147,016,357
Service vehicles and equipment	9,706,685	383,745	(104,547)	9,985,883
Communication equipment	16,261,822	2,410,094	(160)	18,671,756
Furniture and fixtures	744,017	6,585	-	750,602
Bus signs and shelters	10,824,324	687,878	(786)	11,511,416
Total capital assets being depreciated	253,018,392	19,361,990	(4,877,925)	267,502,457
Less: accumulated depreciation for				
Buildings and improvements	27,302,429	2,789,488	-	30,091,917
Revenue vehicles	78,867,699	14,176,963	(4,772,432)	88,272,230
Service vehicles and equipment	8,164,926	432,747	(94,797)	8,502,876
Communication equipment	11,495,904	1,779,005	(120)	13,274,789
Furniture and fixtures	592,475	31,969	-	624,444
Bus signs and shelters	4,699,803	879,291	(86)	5,579,008
Total accumulated depreciation	131,123,236	20,089,463	(4,867,435)	146,345,264
Total capital assets being depreciated, net	121,895,156	(727,473)	(10,490)	121,157,193
Total capital assets, net	$ 123,767,692	$ (727,473)	$ (10,490)	$ 123,029,729

Depreciation expense for the Fiscal Year Ended June 30, 2018 was $20,089,463.

(5) Long-Term Liabilities

Long-term liability activity for the Fiscal Year Ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 3,021,669	$ 33,538	$ -	$ 3,055,207	$ 1,043,169
Insurance loss reserve	9,451,000	4,966,066	(5,238,066)	9,179,000	1,862,842
Post-employment benefits	167,927,963	-	(8,317,162)	159,610,801	-
Net pension liability	5,621,614	-	(2,102,646)	3,518,968	-
Long-term liabilities	$ 186,022,246	$ 4,999,604	$ (15,657,874)	$ 175,363,976	$ 2,906,011

(6) Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement (CBA) covers the period from September 1, 2016 through August 31, 2019.

Paratransit Specialists statewide and South District Fixed Route Operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate CBA. The term of the current CBA covers the period from September 1, 2016 through August 31, 2019.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employees International Union AFL-CIO, Local 32. The term of the current CBA covers the period from January 1, 2013 through December 31, 2016. As of the date of this report, a new CBA had not been signed and both parties continue to operate under the expired contract terms.

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

(7) Defined Benefit Pension Plans

(a) Plan Descriptions

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

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

The DART Plan is a single-employer, defined benefit, contributory plan covering members of Local 32, Office and Professional Employees International Union AFL-CIO, and Local 842, Amalgamated Transit Union AFL-CIO and its collective bargaining units: the North District

Fixed Route and Maintenance Employees and the Paratransit and Greater Dover Area Fixed Route Drivers, who are employed by DTC.

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

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

The following employees were covered by the DTC Plan at June 30, 2017:

Active members	309
Inactive members or beneficiaries currently receiving benefits	71
Terminated, vested members	84
Total	464

The following employees were covered by the DART Plan at December 31, 2017:

Active members	661
Inactive members or beneficiaries currently receiving benefits	184
Terminated, vested members	88
Total	933

(b) Benefits

The DTC Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible for early retirement at age 55. All employees may retire at any age after 25 years of credited service or upon reaching the age of 62. If an employee terminates their employment after at least five years of credited service, but before normal retirement age, they may defer pension benefits until reaching retirement age. Benefits fully vest after five years of credited service.

Death benefits for a DTC Plan participant who dies while employed after completing five years of credited service is equal to 75% of the service pension to which the participant would have been eligible at age 65.

The authority under which the DTC Plan benefit provisions are established, evaluated, and amended resides with DTC. DTC reserves the right to amend, modify, or terminate the DTC Plan and completely discontinue contributions with respect to eligible participants. However, no such action shall adversely affect eligible participants who have retired under the DTC Plan prior to such action, nor shall any such amendment have the effect of decreasing the amount of a participant's accrued benefit. DTC expects to continue the DTC Plan indefinitely.

The DART Plan provides retirement, disability, and death benefits. All employees with 10 years of credited service are eligible to receive pension benefits at age 65. All employees may retire at any age after 25 years of credited service or upon reaching the age of 65 with a minimum of five years of continuous service. If an employee terminates their employment after at least five years of continuous service, but before normal retirement age, they may defer pension benefits until reaching retirement age. Effective January 1, 2018, the multiplier for employees who retire after December 31, 2017 was increased to a monthly benefit per year of service of $70.50. Additionally, the monthly benefit amounts for retirees were increased by 1%. Upon the death of a retiree or active participant, a lump-sum payment will be made comprised of the aggregate of the participant's contributions that exceed the aggregate of the payments that have been made to the participant.

The authority under which DART Plan benefit provisions are established, evaluated, and amended resides with the DART Plan Pension Committee. The DART Plan Pension Committee is comprised of three members appointed by DTC and three members appointed by Amalgamated Transit Union, Local 842.

(c) Funding Policy

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

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

The contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2018 were $1,103,635 and $1,047,983, respectively.

(d) Net Pension Liability

The DTC Plan's net pension liability for the Fiscal Year Ended June 30, 2018 was determined by an actuarial valuation as of July 1, 2016. Update procedures were used to roll forward the valuation results. There have been no changes between the June 30, 2017 measurement date of the net pension liability and DTC's report date that are expected to have a significant effect on the net pension liability.

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

Investment rate of return	7.0%, net of plan investment expense, including inflation
Salary increases	2.5%, including inflation
Inflation	2.0%
Mortality	RP-2000 Combined Healthy tables with generational projection by Scale AA

The long-term expected rate of return on the DTC Plan's investments of 7.0% was determined using a building-block method, where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. These return expectations are weighted based on the following asset/target amounts:

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocation Percentage
Domestic equity	5.2%	42.0%
International equity	5.2	16.0
Emerging equity	5.2	7.0
Core fixed income	3.0	25.0
Intermediate IG Corp	3.8	2.5
Bank loans	2.7	2.5
High yield	4.3	2.5
Emerging debt	4.8	2.5

The DART Plan's net pension liability for the calendar year ended December 31, 2017 was determined by an actuarial experience study as of January 1, 2018. There have been no changes between the December 31, 2017 measurement date of the net pension liability and the report date that are expected to have a significant effect on the net pension liability. The total pension liability used to calculate the net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurements:

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

The long-term expected rate of return on the DART Plan's investments of 7.0% was determined using a building-block method, where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. These return expectations are weighted based on the following asset/target amounts:

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocation Percentage
Domestic equity	8.0%	39.0%
International equity	8.0	21.0
Fixed income	4.0	39.0
Cash equivalents	3.0	1.0

(e) Discount Rate

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

(f) Changes in the Net Pension Liability

Changes in DTC's net pension liability for the Fiscal Year Ended June 30, 2018 were as follows:

	DTC Plan			DART Plan			Totals		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances at 7/1/16 (DTC Plan) and 1/1/17 (DART Plan)	$ 24,540,311	$ 22,668,043	$ 1,872,268	$ 47,808,538	$ 44,059,192	$ 3,749,346	$ 72,348,849	$ 66,727,235	$ 5,621,614
Changes for the year									
Service cost	1,059,502	-	1,059,502	2,097,424	-	2,097,424	3,156,926	-	3,156,926
Interest	1,691,465	-	1,691,465	3,406,325	-	3,406,325	5,097,790	-	5,097,790
Changes of benefit terms	-	-	-	1,042,316	-	1,042,316	1,042,316	-	1,042,316
Differences between expected and actual experience	(192,021)	-	(192,021)	(120,900)	-	(120,900)	(312,921)	-	(312,921)
Changes of assumptions	1,529,944	-	1,529,944	-	-	-	1,529,944	-	1,529,944
Contributions - employer	-	1,103,635	(1,103,635)	-	1,047,983	(1,047,983)	-	2,151,618	(2,151,618)
Contributions - member	-	116,052	(116,052)	-	1,344,419	(1,344,419)	-	1,460,471	(1,460,471)
Net investment income	-	2,528,821	(2,528,821)	-	6,742,936	(6,742,936)	-	9,271,757	(9,271,757)
Benefit payments, including refunds of member contributions	(753,069)	(753,069)	-	(2,531,165)	(2,531,165)	-	(3,284,234)	(3,284,234)	-
Administrative expenses	-	(160,699)	160,699	-	(106,446)	106,446	-	(267,145)	267,145
Net changes	3,335,821	2,834,740	501,081	3,894,000	6,497,727	(2,603,727)	7,229,821	9,332,467	(2,102,646)
Balances at 6/30/17 (DTC Plan) and 12/31/17 (DART Plan)	$ 27,876,132	$ 25,502,783	$ 2,373,349	$ 51,702,538	$ 50,556,919	$ 1,145,619	$ 79,578,670	$ 76,059,702	$ 3,518,968

(g) Sensitivity of Net Pension Liability to Changes in the Discount Rate

The sensitivity of the net pension liability to changes in the DTC Plan's discount rate as of June 30, 2017, and the DART Plan's discount rate as of December 31, 2017 were as follows:

	1% Decrease	Current Discount Rate	1% Increase
DTC Plan (7.0%)	$ 5,804,890	$ 2,373,349	$ (517,381)
DART Plan (7.0%)	$ 6,521,861	$ 1,145,619	$ (3,495,548)

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

The components of pension expense for the DTC Plan were as follows for the Fiscal Year Ended June 30, 2018:

Service cost	$ 1,059,502
Interest	1,691,465
Member contributions	(116,052)
Difference between expected and actual experience	(147,728)
Changes of assumptions	191,243
Administrative expenses	160,699
Projected earnings on plan investments	(1,597,471)
Amortization of investment return differences	54,773
Pension expense	$ 1,296,431

The components of pension expense for the DART Plan were as follows for the Fiscal Year Ended June 30, 2018:

Service cost	$ 2,097,424
Interest	3,406,325
Member contributions	(1,344,419)
Benefit changes	1,042,316
Difference between expected and actual experience	(48,743)
Administrative expenses	106,446
Projected earnings on plan investments	(3,075,706)
Amortization of investment return differences	84,838
Pension expense	$ 2,268,481

For the Fiscal Year Ended June 30, 2018, DTC recognized pension expense of $3,564,912.

Contributions Made Subsequent to the Measurement Period - Contributions made subsequent to the measurement period (Fiscal Year June 30, 2018 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net pension liability in Fiscal Year 2019.

Expected and Actual Experience Differences - The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

Change in Assumptions - The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive Plan members. The first year of amortization is recognized as pension expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

Differences Between Projected and Actual Investment Earnings on Pension Plan Investments - The difference between the actual earnings on Plan investments compared to the DTC Plan's expected rate of return of 7.0% and DART Plan's expected rate of return of 7.0% is amortized over a closed period of five years. The first year of amortization is recognized as pension expense, with the remaining four years recognized as either a deferred outflow or deferred inflow of resources.

The following presents the deferred outflows of resources and deferred inflows of resources related to the DTC Plan and DART Plan as of June 30, 2018:

	DTC Plan		DART Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 873,272	$ -	$ 354,640	$ -	$ 1,227,912
Change in assumptions	1,338,701	-	-	-	1,338,701	-
Net difference between projected and actual earnings on pension plan investments	203,431	-	-	1,225,678	203,431	1,225,678
Employer contributions subsequent to the measurement date	1,141,056	-	1,185,733	-	2,326,789	-
Total	$ 2,683,188	$ 873,272	$ 1,185,733	$ 1,580,318	$ 3,868,921	$ 2,453,590

DTC reported $2,326,789 as deferred outflows of resources related to pensions resulting from DTC contributions subsequent to the measurement dates, which will be recognized as a reduction of the net pension liability for the Fiscal Year Ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the Fiscal Years Ending June 30,:

	DTC Plan	DART Plan	Total
2019	$ 98,288	$ 36,095	$ 134,383
2020	314,070	36,094	350,164
2021	107,888	(710,650)	(602,762)
2022	(142,755)	(782,189)	(924,944)
2023	43,515	(48,743)	(5,228)
Thereafter	247,854	(110,925)	136,929

(i) Payable to the Plans

At June 30, 2018, DTC reported no outstanding amount for contributions due to the DTC Plan.

At June 30, 2018, DTC reported payables of $1,100,905 for the outstanding amount of contributions due to the DART Plan.

(8) Other Post-Employment Benefits (OPEB)

(a) Plan Description

In June 2010, the Delaware Transit Corporation OPEB Fund Trust (the OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The OPEB Trust was amended and restated on January 1, 2014. Furthermore, the OPEB Trust was amended to change employee eligibility and DTC subsidy requirements effective January 1, 2016. The OPEB Trust is administered by DTC. Policy for and management of the OPEB Trust benefits provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer, defined benefit plan. The OPEB Trust provides retirement medical and life insurance coverage to retired employees and their eligible dependents.

DTC retains the authority to establish, evaluate, and amend the benefit terms provided under the OPEB Trust. DTC assumes no contractual obligations to continue contributions to the OPEB Trust and reserves the right at any time and for any reason to discontinue or amend the above mentioned post-employment benefits. Failure by DTC to continue to make contributions to the OPEB Trust shall not give rise to any liability to DTC. It is the expectation of DTC to continue the OPEB Trust indefinitely.

Membership of the plan consisted of the following at June 30, 2017:

Retirees and beneficiaries receiving benefits	
Pre-65	40
Post-65	172
Total retirees and beneficiaries receiving benefits	212
Total active plan members	874
Total	1,086

Substantially all DTC full-time employees become eligible for post-retirement benefits if they reach retirement age while working for DTC. However, employees who elect early retirement at age 55 with 10 years of service are also eligible for OPEB benefits.

Eligibility

Contract Employees:

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

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

Non-Contract Employees:

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

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

For both contract and non-contract employees, disabled participants must reach retirement age to be eligible.

Benefits

During the Fiscal Year Ended June 30, 2018, DTC provided health insurance options through two providers and life insurance through one provider.

Spouse and Survivor Coverage

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

Retiree Contributions

The only required contributions by retirees are their respective portion of current year premiums as described in Note 8(c). DTC retains the authority to amend the requirements for retiree contributions at any time.

(b) Funding Policy and Employer Contributions

DTC funds the OPEB Trust on a pay-as-you-go basis with additional funding provided on an ad-hoc basis. Contributions to the OPEB Trust are generally made at the same time and in the same amount as benefit payments and expenses becoming due. Funds are recorded in the OPEB Trust for the payment of retiree healthcare and life insurance claims and investment expenses. Employer contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under DTC's management, who acts as the Trustee of and is responsible for the financial management of the OPEB Trust. The cash basis costs associated with these benefits were $2,279,511 for the Fiscal Year Ended June 30, 2018.

(c) Employer Subsidy

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

DTC subsidizes 90% of medical premiums based on published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for non-contract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium.

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

DTC subsidizes 50% of medical premiums based on published rates after 10 years of service and 75% after 15 years of service. For retirees less than age 65 and greater than 20 years of service, retirees are responsible for the same premium paid by active employees, with DTC subsidizing the remaining amount. For retirees greater than age 65 and greater than 20 years of service, DTC subsidizes 100% of the medical premiums. DTC subsidizes 100% of dental and vision coverage for all retirees and their spouses and dependents after 10 years of service.

Life Insurance

Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. DTC must pay $0.265 per month per $1,000 of coverage for each employee.

The premium payments for post-employment benefits paid by retirees was $88,503 for the Fiscal Year Ended June 30, 2018.

(d) Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.4%
Salary increases	2.5%, including inflation
Investment rate of return	3.6%, based on the government bond index rate as of June 30, 2017

The healthcare cost trend rate is 3.9% as of June 30, 2017 based on the Society of Actuaries Long-Run Medical Cost Trend Model. Sample trends are as follows:

	Post-Medicare	Pre-Medicare
2018	5.7%	5.7%
2023	5.0%	5.0%
2028	5.0%	5.9%
2053	4.8%	5.2%

Mortality rates were based on the RP 2000 Fully Generational Healthy Table and the RP 2000 Fully Generational Combined Disabled Table.

The implementation of GASB No. 75 resulted in significant changes to assumptions used to measure the total OPEB liability at the June, 30, 2017 measurement date as compared to the June 30, 2016 actuarial valuation. These changes are as follows:

- Change in the discount rate from 4.0% as of June 30, 2016 to 3.6% as of June 30, 2017.
- Change in salary scale from 3.0% as of June 30, 2016 to 2.5% as of June 30, 2017.
- Change in actuarial funding method from projected unit credit as of June 30, 2016 to entry age normal as of as of June 30, 2017.

All participants currently enrolled in healthcare coverage are assumed to continue to elect healthcare coverage in the future. All participants that have waived healthcare coverage are assumed to continue to waive healthcare coverage in the future. 92% of those currently enrolled are assumed to continue coverage into retirement. This assumption is based on DTC's experience.

(e) Discount Rate

The discount rate used to measure the total OPEB liability was 3.6%, based on the government bond index rate (20-year AA Municipal Bond) as of June 30, 2017.

(f) Changes in the Net OPEB Liability

Changes in DTC's net OPEB liability for the Fiscal Year Ended June 30, 2018 were as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances as of July 1, 2016	$ 170,183,501	$ 2,255,538	$ 167,927,963
Changes for the year			
Service cost	13,166,160	-	13,166,160
Interest	4,801,244	-	4,801,244
Differences between expected and actual experience	(1,365,378)	-	(1,365,378)
Changes of assumptions	(21,366,896)	-	(21,366,896)
Contributions - employer	-	3,572,187	(3,572,187)
Net investment loss	-	(19,895)	19,895
Benefit payments, including refunds of member contributions	(2,072,187)	(2,072,187)	-
Net changes	(6,837,057)	1,480,105	(8,317,162)
Balances at June 30, 2017	$ 163,346,444	$ 3,735,643	$ 159,610,801

(g) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rate

The sensitivity of the net OPEB liability to changes in the OPEB Trust's discount rate as of June 30, 2017 were as follows:

	1% Decrease (2.6%)	Current Discount Rate (3.6%)	1% Increase (4.6%)
Net OPEB liability (asset)	$ 190,042,819	$ 159,610,801	$ 135,391,862

The sensitivity of the net OPEB liability to changes in the OPEB Trust's health care cost trend rate as of June 30, 2017 were as follows:

	1% Decrease (2.9%)	Current Health Care Trend Rate (3.9%)	1% Increase (4.9%)
Net OPEB liability (asset)	$ 132,408,139	$ 159,610,801	$ 194,980,750

(h) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The components of OPEB expense were as follows for the Fiscal Year Ended June 30, 2018:

Service cost	$ 13,166,160
Interest	4,801,244
Current period amortization of deferred outflows associated with differences between projected and actual earnings	3,979
Current period amortization of deferred inflows associated with differences between projected and actual experience	(136,538)
Current period amortization of deferred inflows associated with changes in assumptions	(2,136,690)
OPEB expense	$ 15,698,155

Contributions Made Subsequent to the Measurement Period - Contributions made subsequent to the measurement date of June 30, 2017 (Fiscal Year June 30, 2018 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net OPEB liability in Fiscal Year 2019.

Expected and Actual Experience Differences - The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members. The first year of amortization is recognized as OPEB expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

Change in Assumptions - The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive members. The first year of amortization is recognized as OPEB expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

Differences Between Projected and Actual Investment Earnings on OPEB Trust Investments - The difference between the actual earnings on OPEB investments compared to the expected rate of return of 4.0% is amortized over a closed period of five years. The first year of amortization is recognized as OPEB expense, with the remaining four years recognized as either a deferred outflow or deferred inflow of resources.

The following presents a summary of the deferred outflows of resources and deferred inflows of resources related to the OPEB Trust as of June 30, 2018:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 1,228,840
Change in assumptions	-	19,230,206
Net difference between projected and actual earnings on OPEB Trust investments	15,916	-
Employer contributions subsequent to the measurement date	2,279,511	-
Total	$ 2,295,427	$ 20,459,046

DTC reported $2,279,511 as deferred outflows of resources related to OPEB resulting from DTC contributions subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability for the Fiscal Year Ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense during the Fiscal Years Ending June 30,:

2019	$ (2,269,249)
2020	(2,269,249)
2021	(2,269,249)
2022	(2,269,249)
2023	(2,273,228)
Thereafter	(9,092,906)

(i) Payable to the Plan

At June 30, 2018, there was no outstanding amount for contributions due to the OPEB Trust.

(j) Additional Information for the OPEB Trust

The following additional information is being provided related to the OPEB Trust as of and for the Fiscal Year Ended June 30, 2017, the measurement date of the OPEB liability, since separate plan financial statements are not publicly available.

Schedule of Fiduciary Net Position - OPEB Trust
June 30, 2017

Assets		
Cash and cash equivalents	$	15,238
Investments, at fair value		
Fixed income		1,246,668
Domestic equities		1,547,861
International equities		925,876
Total investments, at fair value		3,720,405
Total assets	$	3,735,643
Net position restricted for other post-employment benefits	$	3,735,643

Schedule of Plan Investment Net Income (Loss) - OPEB Trust
For the Fiscal Year Ended June 30, 2017

Additions		
Investment income (loss)		
Net realized and unrealized loss	$	(62,051)
Interest and dividends		52,137
		(9,914)
Less: investment expenses		9,981
Net investment income (loss)	$	(19,895)

Disclosures Specific to the OPEB Trust

Cash and Cash Equivalents

The OPEB Trust considers all short-term money market shares purchased to be cash equivalents.

Valuation of Investments and Income Recognition

Investments are administered by Wilmington Trust Company and quarterly reports are analyzed and reviewed by DTC. Investments are valued at fair value as determined by quoted market prices.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Basis of Accounting

The financial statements of the OPEB Trust are reported using the economic resources measurement focus and are prepared on the accrual basis of accounting in conformity with GAAP. Contributions are recognized when due pursuant to the terms of the OPEB Trust and established funding policies. Expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Benefits are recognized when due and payable in accordance with the terms of the OPEB Trust.

Investments

Investment Policy

DTC has appointed the DTC OPEB Trust Committee (the OPEB Trust Committee) to administer the OPEB Trust and to oversee certain policies and procedures related to the investment of the OPEB Trust assets.

The OPEB Trust Committee has adopted an Investment Policy Statement (IPS) to set forth the factors involved in the management of investment assets for the Trust, and the IPS is included with every investment manager's agreement. The OPEB Trust Committee has the authority to establish and amend the IPS. The IPS was most recently amended with an effective date of April 2015.

DTC adopted the philosophy that the most effective risk control procedure is to adequately diversify the investments of the OPEB Trust among different asset classes with differing risk profiles. Diversification is achieved through providing a wide variety of investment classes in which to invest the funds. The IPS sets the allowable asset ranges. Long-term expected real rate of return and asset allocation for the OPEB Trust's funds as of June 30, 2017 were as follows:

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocation Percentage
Domestic equity	5.2%	42.0%
International equity	5.2	16.0
Emerging equity	5.2	7.0
Core fixed income	3.0	25.0
Intermediate IG Corp	3.8	2.5
Bank loans	2.7	2.5
High yield	4.3	2.5
Emerging debt	4.8	2.5

The long-term expected rate of return on the OPEB Trust's investments was determined using a building-block method, where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns.

Along with diversification, DTC set forth the following investment goals and objectives in the IPS:

- To invest assets of the OPEB Trust in a manner consistent with the following fiduciary standards (a) all transactions undertaken must be for the sole interest of OPEB Trust participants and their beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses in individual investments.

- To provide for the funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the OPEB Trust.

- To enhance the value of OPEB Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.

- Subject to performance expectations over the long-term, to minimize principal fluctuations over the time horizon, as defined in the IPS.

- To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the OPEB Trust's actuarial discount rate.

Implementing and complying with these goals and guidelines are the responsibilities of the OPEB Trust Committee, third-party consultants, and investment managers. The IPS also outlines the review and control procedures that DTC monitors for compliance.

Investment Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on OPEB Trust investments, net of investment expenses was 8.7% for the Fiscal Year Ended June 30, 2017.

Fair Value of Investments

The fair value of the OPEB Trust's investments based on quoted market prices at June 30, 2017 are presented, by type, as follows:

		Fair Value Measurements at June 30, 2017 Using		
Investments by Type	2017	Level 1	Level 2	Level 3
Debt securities				
Fixed income mutual funds	$ 1,246,668	$ 1,246,668	$ -	$ -
Equity securities				
Domestic equity mutual funds	1,547,861	1,547,861	-	-
International equity mutual funds	925,876	925,876	-	-
Total investments measured at fair value	$ 3,720,405	$ 3,720,405	$ -	$ -

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the OPEB Trust will not be able to recover the value of investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the OPEB Trust, and are held by either the counterparty or the counterparty's trust department or agent but not in the OPEB Trust's name. As of June 30, 2017, the OPEB Trust's investment securities were not exposed to custodial credit risk because all securities were held by the OPEB Trust's custodian in the OPEB Trust's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The OPEB Trust does not have a formal policy that limits investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations to the OPEB Trust. The OPEB Trust's investments in the Wilmington Trust

U.S. Government Money Market Fund had an Aaa rating at June 30, 2017. The OPEB Trust had no other direct investment in fixed income securities as of June 30, 2017.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the OPEB Trust does not have a formal policy governing foreign currency risk, the OPEB Trust does manage its exposure to fair value loss by requiring its investment managers to maintain diversified portfolios to limit foreign currency risk.

Administrative Expenses

Administrative expenses consist of investment management expenses incident to the administration of the OPEB Trust. DTC pays all administrative expenses incurred by the OPEB Trust.

OPEB Trust Termination

The OPEB Trust Agreement shall be irrevocable unless and until DTC no longer has any liability for other post-employment benefits. Upon termination of the OPEB Trust, after all expenses have been paid, any assets remaining shall revert to DTC or be transferred to another entity or person that meets the requirements for exemption from tax under Section 115 of the Internal Revenue Code.

(9) Operating Leases

DTC has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require DTC to pay for maintenance and liability insurance costs. Rental expenses were $29,867 for the Fiscal Year Ended June 30, 2018.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows as of the Fiscal Year Ended June 30, 2018:

2019	$ 1,800
2020	1,800
	$ 3,600

DTC had an operating lease agreement for transit vehicle tires, which expired on August 31, 2014. The lease agreement was automatically renewed for two additional one-year periods, which extended the lease through August 31, 2016. On September 2, 2016, DTC entered into a new lease contract for a three-year period with the option to extend the contract up to two times for a period of up to one year. Similar to the prior lease, the lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the Fiscal Year

Ended June 30, 2018, DTC incurred expenses related to this lease of $260,087.

(10) Economic Dependency

DTC's revenue from operating subsidies from State entities was approximately 73% of total revenue for the Fiscal Year Ended June 30, 2018.

(11) Commitments and Contingencies

Litigation

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

(12) Risk Management

(a) Workers' Compensation Insurance

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

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

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

Subsequent to Fiscal Year 2003, DTC changed its coverage and was insured through Fiscal Year 2011 by the State. For Fiscal Years 2012 through 2014, DTC was insured through Liberty Mutual. In Fiscal Year 2015, DTC returned to being covered by the State. The premium for Fiscal Year 2018 was calculated as $2.00 per $100 on gross wages. 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 fiscal years prior to 2003, DTC established auto loss reserves based upon insurance carriers’ actuarial reviews. Individual claims in an amount of $100,000 or less per incident, per coverage year were paid from the auto loss reserve funds. Once a specific claim exceeds $100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

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

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

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

Fiscal Year	Initial Loss Reserve Insurance Liability Established	Maximum Amount of Loss Under Self-Insured Retention Program (Per Occurrence)	Excess Commercial Coverage (Aggregate)
2018	$ 4,929,000	$ 1,000,000	***
2017	5,040,000	1,000,000	***
2016	4,679,000	1,000,000	***
2015	5,078,000	1,000,000	***
2014	4,510,000	1,000,000	***
2013	4,304,004	1,000,000	***
2012	3,828,996	1,000,000	***
2011	3,372,000	1,000,000	***
2010	3,467,000	1,000,000	***
2009	3,129,000	900,000	**
2008	3,106,000	900,000	**
2007 (01/15/07 - 06/30/07)	*	900,000	**
2007 (07/01/06 - 01/14/07)	2,607,350	2,300,000	$ 5,000,000
2006	2,858,258	2,300,000	5,000,000
2005	2,763,367	2,300,000	5,000,000
2004	2,666,763	1,300,000	6,000,000
2003	2,561,000	1,300,000	10,000,000

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

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

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

The components of the remaining insurance loss reserve on DTC's statement of net position were as follows at June 30, 2018:

Auto Loss Reserve Remaining for Fiscal Year	
2018	$ 3,695,000
2017	2,885,000
2016	1,611,000
2015	624,000
2014	238,000
2013	122,000
2000	4,000
	$ 9,179,000

Changes in the balance of total claim liabilities during the Fiscal Year Ended June 30, 2018 were as follows:

Beginning Balance - July 1	Current Year Estimated Claims and Changes in Estimates	Actual Claim Payments	Ending Balance - June 30
$ 9,451,000	$ 4,966,066	$ (5,238,066)	$ 9,179,000

(13) Transfers

The following amounts were transferred from DelDOT and related entities to DTC for the Fiscal Year Ended June 30, 2018:

Amounts transferred as operating assistance	$ 89,759,100
Amounts transferred as pass-through grant revenues	2,623,182
Amounts transferred as capital funding for purchase of capital assets	9,795,449
Total transfers from DelDOT	$102,177,731

(14) Deficit on Unrestricted Net Position

DTC has a deficit on unrestricted net position of $157,413,620 as of June 30, 2018. The deficit was initially caused by the implementation of GASB No. 45, which required DTC to record the annual unfunded required contribution related to post-employment benefits provided to retirees. The deficit increased substantially for Fiscal Year 2018 as a result of implementing GASB No. 75 (See Note 2(l)). For the overall financial impact related to post-employment benefits, see Note (8).

(15) Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to financial statements. All events and transactions have been evaluated through November 30, 2018, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Delaware Transit Corporation

Required Supplementary Information

June 30, 2018

Schedule of Changes in Net Pension Liability and Related Ratios - DTC Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total pension liability										
Service cost	$ 1,060	$ 873	$ 843	$ 840						
Interest	1,691	1,724	1,612	1,483						
Changes of benefit terms	-	-	-	-						
Differences between expected and actual experience	(192)	(693)	(297)	-						
Changes of assumptions	1,530	-	-	-						
Benefit payments, including refunds of member contributions	(753)	(705)	(629)	(569)						
Net change in total pension liability	3,336	1,199	1,529	1,754						
Total pension liability - beginning	24,540	23,341	21,812	20,058						
Total pension liability - ending (a)	$ 27,876	$ 24,540	$ 23,341	$ 21,812						
Plan fiduciary net position										
Contributions - employer	$ 1,104	$ 1,104	$ 1,176	$ 1,158						
Contributions - members	116	81	57	30						
Net investment income	2,529	405	554	2,443	Information for Fiscal Year 2013 and earlier is not available.					
Benefit payments, including refunds of member contributions	(753)	(705)	(629)	(569)						
Administrative expense	(161)	(166)	(94)	(116)						
Net change in plan fiduciary net position	2,835	719	1,064	2,946						
Plan fiduciary net position - beginning	22,668	21,949	20,885	17,939						
Plan fiduciary net position - ending (b)	$ 25,503	$ 22,668	$ 21,949	$ 20,885						
Net pension liability - ending (a) - (b)	$ 2,373	$ 1,872	$ 1,392	$ 927						
Plan fiduciary net position as a percentage of total pension liability	91.49 %	92.37 %	94.04 %	95.75 %						
Covered payroll	$ 14,161	$ 13,142	$ 12,261	$ 12,099						
Net pension liability as a percentage of covered payroll	16.76 %	14.24 %	11.35 %	7.66 %						

Notes to Schedule

Benefit changes: None

Changes of assumptions: In Fiscal Year 2017, the investment rate of return was lowered to 7.0% from 7.5%.

See accompanying independent auditors' report.

Delaware Transit Corporation

Required Supplementary Information

June 30, 2018

Schedule of Changes in Net Pension Liability and Related Ratios - DART Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total pension liability										
Service cost	$ 2,098	$ 2,048	$ 1,976	$ 1,766						
Interest	3,406	3,209	2,925	2,675						
Changes of benefit terms	1,042	197	1,473	1,030						
Differences between expected and actual experience	(121)	(217)	(112)	4						
Benefit payments, including refunds of member contributions	(2,531)	(2,411)	(2,134)	(2,103)						
Net change in total pension liability	3,894	2,826	4,128	3,372						
Total pension liability - beginning	47,809	44,983	40,855	37,483						
Total pension liability - ending (a)	$ 51,703	$ 47,809	$ 44,983	$ 40,855						
Plan fiduciary net position										
Contributions - employer	$ 1,048	$ 1,080	$ 1,253	$ 909						
Contributions - members	1,344	1,360	1,388	1,263						
Net investment income	6,743	2,550	(869)	2,605	Information for Fiscal Year 2013 and earlier is not available.					
Benefit payments, including refunds of member contributions	(2,531)	(2,411)	(2,134)	(2,103)						
Administrative expense	(106)	(94)	(100)	(133)						
Net change in plan fiduciary net position	6,498	2,485	(462)	2,541						
Plan fiduciary net position - beginning	44,059	41,574	42,036	39,495						
Plan fiduciary net position - ending (b)	$ 50,557	$ 44,059	$ 41,574	$ 42,036						
Net pension liability (asset) - ending (a) - (b)	$ 1,146	$ 3,750	$ 3,409	$ (1,181)						
Plan fiduciary net position as a percentage of total pension liability	97.78 %	92.16 %	92.42 %	102.89 %						
Covered payroll	$ 27,383	$ 27,472	$ 28,203	$ 25,748						
Net pension liability (asset) as a percentage of covered payroll	4.19 %	13.65 %	12.09 %	(4.59)%						

Notes to Schedule

Benefit changes: None
Changes of assumptions: None

See accompanying independent auditors' report.

Delaware Transit Corporation
Required Supplementary Information
June 30, 2018

Schedule of Contributions - Pension Plans

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
DTC Plan, as of June 30,											
Actuarially determined contribution	$ 1,255	$ 980	$ 1,104	$ 1,176	$ 1,156						
Contributions in relation to the actuarially determined contribution	1,141	1,104	1,104	1,176	1,158						
Contribution deficiency (excess)	$ 114	$ (124)	$ -	$ -	$ (2)	Information for Fiscal Year 2013 and earlier is not available.					
Covered payroll	$ 14,985	$ 14,161	$ 13,142	$ 12,261	$ 12,099						
Contributions as a percentage of covered payroll	7.61 %	7.80 %	8.40 %	9.59 %	9.57 %						
DART Plan, as of December 31,											
Actuarially determined contribution		$ 1,027	$ 1,012	$ 857	$ 635	$ 773	$ 715	$ 598	$ 611	$ 859	$ 683
Contributions in relation to the actuarially determined contribution		1,048	1,080	1,253	909	1,250	1,080	1,074	1,082	1,063	996
Contribution deficiency (excess)		$ (21)	$ (68)	$ (396)	$ (274)	$ (477)	$ (365)	$ (476)	$ (471)	$ (204)	$ (313)
Covered payroll		$ 27,383	$ 27,472	$ 28,203	$ 25,748	$ 25,579	$ 22,985	$ 22,847	$ 22,675	$ 22,072	$ 18,689
Contributions as a percentage of covered payroll		3.83 %	3.93 %	4.44 %	3.53 %	4.89 %	4.70 %	4.70 %	4.77 %	4.82 %	5.33 %

Notes to Schedule

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

Methods and assumptions used to determine contribution rates for 2017:	*DTC Plan*	*DART Plan*
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll (closed), increasing 2.0% per year	Level percentage of pay
Remaining amortization period	Range from 13 to 20 years	15 years rolling
Asset valuation method	Five-year market smoothed	Five-year market smoothed
Inflation	2.0%	2.0%
Salary increases	2.5%, including inflation	4.0%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation	7.0%
Retirement age	Rates vary by participant age and service	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with generational projection by Scale AA	RP-2000 Blue Collar table without any future mortality improvements

See accompanying independent auditors' report.

Delaware Transit Corporation
Required Supplementary Information
June 30, 2018

Schedule of Changes in Net OPEB Liability and Related Ratios

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total OPEB liability										
Service cost	$ 13,166									
Interest	4,801									
Changes of benefit terms	-									
Differences between expected and actual experience	(1,365)									
Changes of assumptions	(21,367)									
Benefit payments, including refunds of member contributions	(2,072)									
Net change in total OPEB liability	(6,837)									
Total OPEB liability - beginning	170,184									
Total OPEB liability - ending (a)	$ 163,347									
Plan fiduciary net position										
Contributions - employer	$ 3,572									
Net investment income	(20)	Information for Fiscal Year 2016 and earlier is not available.								
Benefit payments, including refunds of member contributions	(2,072)									
Administrative expense	-									
Net change in plan fiduciary net position	1,480									
Plan fiduciary net position - beginning	2,256									
Plan fiduciary net position - ending (b)	$ 3,736									
Net OPEB liability - ending (a) - (b)	$ 159,611									
Plan fiduciary net position as a percentage of total OPEB liability	2.29 %									
Covered-employee payroll	$ 50,228									
Net OPEB liability as a percentage of covered-employee payroll	317.77 %									

Notes to Schedule

Benefit changes: None

Changes of assumptions: The discount rate was changed from 2.9% as of June 30, 2017 to 3.6% as of June 30, 2018.

See accompanying independent auditors' report.

Delaware Transit Corporation
Required Supplementary Information
June 30, 2018

Schedule of Investment Returns - OPEB Trust

Last 10 Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-money weighted rate of return, net of investment expense	8.7 %			Information for Fiscal Year 2016 and earlier is not available.						

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

Delaware Transit Corporation

Schedule of Revenues and Expenses Compared to Budget

Fiscal Year Ended June 30, 2018

	Budget (Unaudited)	Actual	Favorable (Unfavorable)
Operating revenues			
Passenger fares	$ 21,126,705	$ 18,029,965	$ (3,096,740)
Advertising	550,000	621,397	71,397
Miscellaneous	1,050,000	898,587	(151,413)
Auxiliary transportation	600,000	880,007	280,007
Total operating revenues	23,326,705	20,429,956	(2,896,749)
Operating expenses before depreciation	118,911,278	130,713,941	(11,802,663)
Operating expenses in excess of operating revenues before depreciation	(95,584,573)	(110,283,985)	(14,699,412)
Nonoperating revenue (expenses)			
Federal operating assistance	5,825,473	6,380,646	555,173
Pass-through grant revenues	-	1,861,445	1,861,445
Pass-through grant expenses	-	(4,953,210)	(4,953,210)
Excess of nonoperating revenues over expenses	5,825,473	3,288,881	(2,536,592)
Transfers from DelDOT for operating purposes			
State operating assistance	89,759,100	89,759,100	-
State pass-though grant revenue	-	2,623,182	2,623,182
Total transfers for operating purposes	89,759,100	92,382,282	2,623,182
Loss before contributions, depreciation, investment income, and bad debt	$ -	$ (14,612,822)	$ (14,612,822)

See accompanying independent auditors' report.

Delaware Transit Corporation
Schedule of Expenses by Mode - All Modes
Fiscal Year Ended June 30, 2018

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ 28,576,879	$ -	$ -	$ -	$ 28,576,879
Other salaries	4,265,999	6,521,150	480,678	6,708,098	17,975,925
Fringe benefits	30,626,659	4,753,692	571,933	8,509,063	44,461,347
	63,469,537	11,274,842	1,052,611	15,217,161	91,014,151
Professional fees and services					
Professional and technical	4,900	-	9,499	3,107,172	3,121,571
Contract and maintenance	-	1,057,553	2,767,822	325,001	4,150,376
Security	-	-	38,139	680,907	719,046
Purchased transportation	14,119,034	-	-	-	14,119,034
Other	93,750	12,368	127,270	283,938	517,326
	14,217,684	1,069,921	2,942,730	4,397,018	22,627,353
Material and supplies					
Fuel and lubes	6,466,258	101,134	-	-	6,567,392
Tires and tubes	479,167	8,139	-	-	487,306
Other materials	87,555	3,623,554	280,283	405,883	4,397,275
	7,032,980	3,732,827	280,283	405,883	11,451,973
Office and miscellaneous					
Utilities	-	-	-	920,581	920,581
Insurance	-	-	-	2,711,161	2,711,161
Miscellaneous expenses:					
Due and subscriptions	-	-	-	61,763	61,763
Travel and meetings	-	-	-	1,369,682	1,369,682
Advertising	-	-	-	332,501	332,501
Facilities	-	-	97,136	-	97,136
Other	-	-	-	127,640	127,640
	-	-	97,136	5,523,328	5,620,464
Total expenses	$ 84,720,201	$ 16,077,590	$ 4,372,760	$ 25,543,390	$ 130,713,941

See accompanying independent auditors' report.

Delaware Transit Corporation
Schedule of Expenses by Mode - Fixed Route Directly Operated
Fiscal Year Ended June 30, 2018

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ 14,923,220	$ -	$ -	$ -	$ 14,923,220
Other salaries	1,542,544	4,369,183	180,733	2,070,861	8,163,321
Fringe benefits	11,908,814	2,249,257	132,166	1,542,233	15,832,470
	28,374,578	6,618,440	312,899	3,613,094	38,919,011
Professional fees and services					
Professional and technical	1,751	-	2,985	768,738	773,474
Contract and maintenance	-	537,045	1,067,433	102,125	1,706,603
Security	-	-	11,984	213,961	225,945
Purchased transportation	-	-	-	-	-
Other	-	9,086	39,497	104,532	153,115
	1,751	546,131	1,121,899	1,189,356	2,859,137
Material and supplies					
Fuel and lubes	3,997,402	40,493	-	-	4,037,895
Tires and tubes	228,621	3,250	-	-	231,871
Other materials	38,857	2,860,141	88,073	138,012	3,125,083
	4,264,880	2,903,884	88,073	138,012	7,394,849
Office and miscellaneous					
Utilities	-	-	-	289,276	289,276
Insurance	-	-	-	1,045,580	1,045,580
Miscellaneous expenses:					
Due and subscriptions	-	-	-	19,408	19,408
Travel and meetings	-	-	-	430,395	430,395
Advertising	-	-	-	246,879	246,879
Facilities	-	-	30,523	-	30,523
Other	-	-	-	40,108	40,108
	-	-	30,523	2,071,646	2,102,169
Total expenses	$ 32,641,209	$ 10,068,455	$ 1,553,394	$ 7,012,108	$ 51,275,166

See accompanying independent auditors' report.

Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Directly Operated

Fiscal Year Ended June 30, 2018

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ 13,653,659	$ -	$ -	$ -	$ 13,653,659
Other salaries	2,408,563	1,965,555	244,162	3,724,945	8,343,225
Fringe benefits	17,796,370	1,979,017	277,689	4,290,472	24,343,548
	33,858,592	3,944,572	521,851	8,015,417	46,340,432
Professional fees and services					
Professional and technical	3,149	-	5,369	1,892,976	1,901,494
Contract and maintenance	-	363,679	1,381,129	183,696	1,928,504
Security	-	-	21,557	384,861	406,418
Purchased transportation	-	-	-	-	-
Other	-	3,282	71,045	142,930	217,257
	3,149	366,961	1,479,100	2,604,463	4,453,673
Material and supplies					
Fuel and lubes	2,457,011	52,393	-	-	2,509,404
Tires and tubes	213,108	4,205	-	-	217,313
Other materials	39,820	520,673	158,421	217,405	936,319
	2,709,939	577,271	158,421	217,405	3,663,036
Office and miscellaneous					
Utilities	-	-	-	520,327	520,327
Insurance	-	-	-	1,352,856	1,352,856
Miscellaneous expenses:					
Due and subscriptions	-	-	-	34,910	34,910
Travel and meetings	-	-	-	774,168	774,168
Advertising	-	-	-	24,638	24,638
Facilities	-	-	54,903	-	54,903
Other	-	-	-	72,144	72,144
	-	-	54,903	2,779,043	2,833,946
Total expenses	$ 36,571,680	$ 4,888,804	$ 2,214,275	$ 13,616,328	$ 57,291,087

See accompanying independent auditors' report.

Delaware Transit Corporation

Schedule of Expenses by Mode - Fixed Route Purchased Transportation

Fiscal Year Ended June 30, 2018

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ -	$ -	$ -	$ -	$ -
Other salaries	219,844	152,518	41,940	565,464	979,766
Fringe benefits	601,861	412,059	115,396	1,553,821	2,683,137
	821,705	564,577	157,336	2,119,285	3,662,903
Professional fees and services					
Professional and technical	-	-	713	183,723	184,436
Contract and maintenance	-	87,252	246,761	24,407	358,420
Security	-	-	2,864	51,135	53,999
Purchased transportation	3,789,473	-	-	-	3,789,473
Other	93,750	-	10,124	24,982	128,856
	3,883,223	87,252	260,462	284,247	4,515,184
Material and supplies					
Fuel and lubes	11,244	6,375	-	-	17,619
Tires and tubes	33,147	529	-	-	33,676
Other materials	6,783	235,080	21,049	32,982	295,894
	51,174	241,984	21,049	32,982	347,189
Office and miscellaneous					
Utilities	-	-	-	69,134	69,134
Insurance	-	-	-	241,710	241,710
Miscellaneous expenses:					
Due and subscriptions	-	-	-	4,638	4,638
Travel and meetings	-	-	-	102,861	102,861
Advertising	-	-	-	59,003	59,003
Facilities	-	-	7,295	-	7,295
Other	-	-	-	9,586	9,586
	-	-	7,295	486,932	494,227
Total expenses	$ 4,756,102	$ 893,813	$ 446,142	$ 2,923,446	$ 9,019,503

See accompanying independent auditors' report.

Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Purchased Transportation

Fiscal Year Ended June 30, 2018

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ -	$ -	$ -	$ -	$ -
Other salaries	95,048	33,894	13,843	331,044	473,829
Fringe benefits	319,614	113,359	46,682	1,119,093	1,598,748
	414,662	147,253	60,525	1,450,137	2,072,577
Professional fees and services					
Professional and technical	-	-	432	114,220	114,652
Contract and maintenance	-	69,577	72,499	14,773	156,849
Security	-	-	1,734	30,950	32,684
Purchased transportation	1,367,344	-	-	-	1,367,344
Other	-	-	6,604	11,494	18,098
	1,367,344	69,577	81,269	171,437	1,689,627
Material and supplies					
Fuel and lubes	601	1,873	-	-	2,474
Tires and tubes	4,291	155	-	-	4,446
Other materials	2,095	7,660	12,740	17,484	39,979
	6,987	9,688	12,740	17,484	46,899
Office and miscellaneous					
Utilities	-	-	-	41,844	41,844
Insurance	-	-	-	71,015	71,015
Miscellaneous expenses:					
Due and subscriptions	-	-	-	2,807	2,807
Travel and meetings	-	-	-	62,258	62,258
Advertising	-	-	-	1,981	1,981
Facilities	-	-	4,415	-	4,415
Other	-	-	-	5,802	5,802
	-	-	4,415	185,707	190,122
Total expenses	$ 1,788,993	$ 226,518	$ 158,949	$ 1,824,765	$ 3,999,225

See accompanying independent auditors' report.

Delaware Transit Corporation

Schedule of Expenses by Mode - Rail

Fiscal Year Ended June 30, 2018

	Vehicle Operations (10)	Vehicle Maintenance (41)	Nonvehicle Maintenance (42)	General Administration (160)	Total
Payroll expense					
Operator salaries	$ -	$ -	$ -	$ -	$ -
Other salaries	-	-	-	15,784	15,784
Fringe benefits	-	-	-	3,444	3,444
	-	-	-	19,228	19,228
Professional fees and services					
Professional and technical	-	-	-	147,515	147,515
Contract and maintenance	-	-	-	-	-
Security	-	-	-	-	-
Purchased transportation	8,962,217	-	-	-	8,962,217
Other	-	-	-	-	-
	8,962,217	-	-	147,515	9,109,732
Material and supplies					
Fuel and lubes	-	-	-	-	-
Tires and tubes	-	-	-	-	-
Other materials	-	-	-	-	-
	-	-	-	-	-
Office and miscellaneous					
Utilities	-	-	-	-	-
Insurance	-	-	-	-	-
Miscellaneous expenses:					
Due and subscriptions	-	-	-	-	-
Travel and meetings	-	-	-	-	-
Advertising	-	-	-	-	-
Facilities	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Total expenses	$ 8,962,217	$ -	$ -	$ 166,743	$ 9,128,960

See accompanying independent auditors' report.

KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

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

The Board of Trustees
Delaware Transportation Authority
Delaware Transit Corporation
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Transit Corporation (DTC), a blended component unit of the Delaware Transportation Authority, which is a component unit of the State of Delaware, as of June 30, 2018, and have issued our report thereon dated November 30, 2018.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Delaware Transit Corporation's Responses to Findings

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

Purpose of this Report

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

KPMG LLP

Harrisburg, Pennsylvania
November 30, 2018

Finding Number: **2018-001**
Finding Name: **Reconciliation of OPEB Census data**
Finding Type: **Material Weakness**

Criteria

The AICPA Audit and Accounting Guide for State and Local Governments states in chapter 14, *Defined Benefit Postemployment Benefits Other than Pensions (OPEB)*, that the measurement of certain financial statement elements related to the OPEB plan (OPEB liability, deferred inflows of resources, deferred outflows of resources, and OPEB expense) depends on the completeness and accuracy of the plan's census data.

In addition, COSO – Integrated Framework, 2013 provides the framework for internal control and states that reconciliations compare two or more data elements, if differences are identified, action is taken to bring the data in agreement. Reconciliations generally address the completeness and/or accuracy of processing transactions

Condition

The OPEB census data for retirees provided to the actuary as of July 1, 2017 did not reconcile to the DTC's retiree benefit listing at July 1, 2017. The retiree benefit listing included 40 retirees incorrectly omitted from the census file provided to the actuary.

Cause

There is not an internal control process to compile, reconcile or authorize census data provided to the actuary.

Effect

The OPEB liability calculated by the actuary was understated by $6.8 million based on inaccurate census data provided by DTC to the actuary.

Recommendation

We recommend that DTC develop and establish procedures to reconcile the OPEB listing of retirees receiving benefits as of July 1 (measurement date) to the census data file that will be sent to the actuary. To ensure proper segregation of duties, the management member responsible for reviewing and authorizing the census data file to be submitted to the actuary cannot be the same person who prepares the reconciliation.

Management Response

We will establish the reconciliation procedures and ensure proper segregation of duties which will be in place for the Fiscal Year 2019.

Finding Number: **2018-002**
Finding Name: **Financial Reporting**
Finding Type: **Material Weakness**

Criteria

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans* (GASB 74), establishes new accounting and financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (OPEB). This Statement was effective for DTC's prior fiscal year ending June 30, 2017. The requirements of GASB 74 apply whether (a) the OPEB plans' financial statements are included in a stand-alone OPEB plan financial report or (b) the OPEB plan is included in the financial report of another government.

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, as amended* (GASB 75), addresses accounting and financial reporting for OPEB provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 75 was effective for DTC's fiscal year beginning July 1, 2017.

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

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

Condition

DTC's management has the overall responsibility for the preparation and fair presentation of their financial statements in accordance with GAAP. DTC utilizes a contractor to compile its financial statements and related notes. DTC's OPEB Trust financial statements are not included in a stand-alone OPEB financial report that are available to the public. DTC's draft financial statements for the fiscal year ended June 30, 2018 did not include some of the required disclosures for GASB No. 74.

We also identified the following areas where the draft financial statements provided by management were not prepared in accordance with GASB 75:

- Plan membership did not reconcile to the actuary report and included terminated plan members entitled to, but not yet receiving benefits (although to be eligible for OPEB the employee must retire from DTC).
- Investment income and beginning net position in the Schedule of Changes in Fiduciary Net Position for the OPEB Trust did not reconcile to the related OPEB investment statement.
- A brief description of the nature of changes between the measurement date of the net OPEB liability (July 1, 2017) and DTC's reporting date (June 30, 2018) that are expected to have a significant impact on the OPEB liability.
- Expected real rate of return for each asset class of investments held by the OPEB Trust.

Cause

DTC personnel responsible for the review of the compiled financial statements were not fully aware of the new accounting and reporting guidance related to GASB 74 and 75.

Effect

The draft financial statements were not presented in accordance with generally accepted accounting principles and required adjustments. Future significant misstatements and omission of significant disclosures may occur if financial statement review controls are not strengthened.

Recommendation

We recommend that DTC enhance its financial statement review procedures when implementing new accounting standards.

Management Response

Management agrees to enhance its financial statement review procedures when implementing new accounting standards including utilization of financial statement disclosure checklists and implementation guidelines. These steps will be taken and implemented as part of the current fiscal year.