

**STATE OF DELAWARE
DEPARTMENT OF TRANSPORTATION**

Financial Statements
June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**State of Delaware
Department of Transportation**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	3
Management's Discussion and Analysis	6
Basic Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	16
Required Supplementary Information	
Required Supplementary Information - Governments That Use the Modified Approach for Infrastructure Assets	84
Required Supplementary Information - DelDOT/Trust Fund Pension - Schedule of Proportionate Share of Net Pension Liability	86
Schedule of Contributions	87
Required Supplementary Information - DelDOT/Trust Fund OPEB - Schedule of Proportionate Share of Net OPEB Liability	88
Schedule of Contributions	89
Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios - DTC Plan	90
Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios - DART Plan	91
Required Supplementary Information - Schedule of Contributions - DTC and DART Plans	92
Required Supplementary Information - Schedule of Changes in Net OPEB Liability and Related Ratios - DTC	93
Required Supplementary Information - Schedule of Investment Returns - DTC OPEB Trust	94
Supplementary Information	
Consolidating Statement of Net Position	96
Consolidating Statement of Revenues, Expenses, and Changes in Net Position	99
Consolidating Statement of Cash Flows	101
Delaware Transportation Authority Transportation Trust Fund - Schedule of Net Position in Accordance with Trust Agreement	103
Schedule of Revenues, Expenses, and Changes in Net Position in Accordance with Trust Agreement	105
Schedule of Revenue Bonds Outstanding	107
Schedule of Revenue Bond Coverage	108
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 <i>Government Auditing Standards</i>	109



INDEPENDENT AUDITORS' REPORT

State of Delaware Department of Transportation
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of State of Delaware Department of Transportation (Department of Transportation), which is an enterprise fund of the State of Delaware as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department of Transportation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of the Department of Transportation as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The consolidating statement of net position; consolidating statement of revenue, expenses, and changes in fund net positions; consolidating statement of cash flows; and Delaware Transportation Authority Transportation Trust Fund Schedules, as listed in the accompanying table of contents (collectively "Supplementary Information"), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 have also issued our report dated December 21, 2020, on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 Department of Transportation 's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Department of Transportation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
December 21, 2020

State of Delaware
Department of Transportation
Management's Discussion and Analysis
June 30, 2020 and 2019

This section of the State of Delaware, Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the Fiscal Years Ended June 30, 2020 and 2019.

Background

The mission of the Department is to provide a safe, efficient, and environmentally sensitive transportation network that offers a variety of convenient, cost-effective mobility opportunities for the movement of people and goods. The Department is responsible for the construction and maintenance of the State of Delaware's (the State) roadways, bridges, and public transportation systems, and for the coordination and development of the State's comprehensive, balanced transportation planning and policies.

Financial Highlights

- Operating revenues decreased by \$58.8 million to \$583.5 million during the Fiscal Year Ended June 30, 2020, primarily due to lower revenues as a result of the COVID-19 pandemic. The decrease was partially offset by an increase in US 301 revenues, as the roadway completed its first full year of operation.
- Operating expenses increased by \$175.1 million to \$875.9 million during the Fiscal Year Ended June 30, 2020, primarily due to a rise in maintenance and preservation costs and increases in professional fees and services.
- Total capital assets (net of depreciation) increased \$116.6 million to \$5,127.2 million during Fiscal Year 2020, primarily due to an increase in capitalized expenditures for previously capitalized projects, such as US 301 and the Christina River Bridge and approaches.
- Total outstanding debt increased \$92.8 million to \$1,123.0 million during Fiscal Year 2020, primarily due to the issuance of an additional Senior Revenue Bond (Series 2019) of \$137.1 million and increased Transportation Infrastructure Finance and Innovation Act (TIFIA) loan debt of \$31.1 million. The increases were offset by debt payments on revenue bonds of \$75.4 million.

Overview of the Financial Statements

The Department is an agency of the State and operates as an enterprise fund. Included within the Department is the Delaware Transportation Authority (the Authority), which is a blended component unit of the Department. The Authority is made up of the activities of the Transportation Trust Fund and the Delaware Transit Corporation.

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

The financial statements provide both long- and short-term information about the Department's overall financial status.

See independent auditors' report.

State of Delaware
Department of Transportation
Management's Discussion and Analysis
June 30, 2020 and 2019

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and supplementary information that further explain and support the information in the financial statements.

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

Financial Analysis of the Department

Statements of Net Position

The Department's total assets were \$5,537.0 million at June 30, 2020, compared to \$5,432.3 million at June 30, 2019. Total liabilities were \$1,850.4 million at June 30, 2020, compared to \$1,706.8 million at June 30, 2019. Net position at June 30, 2020 was \$3,659.6 million, compared to \$3,691.1 million at June 30, 2019.

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

	2020	2019	2018	Percentage Change	
				2020-2019	2019-2018
Current assets	\$ 387.1	\$ 390.2	\$ 428.4	(0.8)%	(8.9)%
Capital assets	5,127.2	5,010.6	4,793.9	2.3	4.5
Other noncurrent assets	<u>22.7</u>	<u>31.5</u>	<u>87.7</u>	(27.9)	(64.1)
Total assets	5,537.0	5,432.3	5,310.0	1.9	2.3
Deferred outflows of resources	92.2	67.3	67.4	37.0	(0.1)
Current liabilities	223.6	205.7	212.0	8.7	(3.0)
Noncurrent liabilities	<u>1,626.8</u>	<u>1,501.1</u>	<u>1,509.5</u>	8.4	(0.6)
Total liabilities	1,850.4	1,706.8	1,721.5	8.4	(0.9)
Deferred inflows of resources	119.2	101.7	77.0	17.2	32.1
Net position					
Net investment in capital assets	3,982.7	3,972.6	3,766.6	0.3	5.5
Restricted	152.7	149.6	217.8	2.1	(31.3)
Unrestricted	<u>(475.8)</u>	<u>(431.1)</u>	<u>(405.5)</u>	10.4	6.3
Total net position	<u>\$ 3,659.6</u>	<u>\$ 3,691.1</u>	<u>\$ 3,578.9</u>	(0.9)	3.1

See independent auditors' report.

State of Delaware
Department of Transportation
Management's Discussion and Analysis
June 30, 2020 and 2019

For Fiscal Year 2020, the increase in capital assets is primarily a result of the following spending: US 301 - \$19.4 million; Christina River Bridge and approaches - \$23.7 million; Claymont Regional Transportation Center - \$8.5 million; and Newark Regional Transportation Center - \$11.7 million.

For Fiscal Year 2020, the increase in total liabilities is primarily due to increases in accounts payable, revenue bonds payable, TIFIA loan payable, and the OPEB liability. The Department issued Senior Revenue Bond (Series 2019) of \$137.1 million and increased TIFIA loan debt by \$31.1 million.

For Fiscal Year 2020, the net position decreased due to increases in total liabilities, as noted above, which was partially offset by an increase in capital assets. Net position also decreased as a result of revenue declines related to the COVID-19 pandemic.

Changes in Net Position

The Department's net position was \$3,659.6 million at June 30, 2020, compared to \$3,691.1 million at June 30, 2019. Operating revenues were \$583.5 million at June 30, 2020, compared to \$642.3 million at June 30, 2019. Total operating expenses were \$875.9 million at June 30, 2020, compared to \$700.8 million at June 30, 2019.

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

	2020	2019	2018	Percentage Change	
				2020-2019	2019-2018
Operating revenues	\$ 583.5	\$ 642.3	\$ 591.4	(9.2)%	8.6 %
Operating expenses					
Operating expenses	843.6	668.8	661.5	26.1	1.1
Depreciation	<u>32.3</u>	<u>32.0</u>	<u>30.6</u>	0.9	4.6
Total operating expenses	<u>875.9</u>	<u>700.8</u>	<u>692.1</u>	25.0	1.3
Operating loss	(292.4)	(58.5)	(100.7)	399.8	(41.9)
Nonoperating revenues, net	<u>260.4</u>	<u>179.8</u>	<u>223.9</u>	44.8	(19.7)
Income (loss) before transfers	(32.0)	121.3	123.2	(126.4)	(1.5)
Transfers, net	<u>0.5</u>	<u>(9.1)</u>	<u>4.0</u>	(105.5)	(327.5)
Change in net position	(31.5)	112.2	127.2	(128.1)	(11.8)
Total net position - beginning of year, as previously stated	3,691.1	3,578.9	3,658.9	3.1	(2.2)
Prior period adjustment - implementation of GASB No. 75	<u>-</u>	<u>-</u>	<u>(207.2)</u>	-	(100.0)
Total net position - beginning of year, as restated	<u>3,691.1</u>	<u>3,578.9</u>	<u>3,451.7</u>	3.1	3.7
Total net position - end of year	<u>\$ 3,659.6</u>	<u>\$ 3,691.1</u>	<u>\$ 3,578.9</u>	(0.9)	3.1

See independent auditors' report.

State of Delaware
Department of Transportation
Management's Discussion and Analysis
June 30, 2020 and 2019

The decrease in operating revenues from 2019 to 2020 is primarily attributed to decreases in turnpike revenue, motor fuel tax revenues, motor vehicle revenues, and passenger fares as a result of impacts of the COVID-19 pandemic.

The increase in total operating expenses from 2019 to 2020 is primarily due to upkeep and operations of the rail projects, bridge maintenance and preservation program, pavement and rehabilitation projects in each county, along with maintenance and preservation spending on the following projects: SR 141 improvements, I-95 intersection to Jay Drive - \$27.5 million, and I-95, N213 Carr Road and Marsh Road - \$10.2 million.

The increase in nonoperating revenues from 2019 to 2020 is a result of increased federal grant revenues and an increase in investment returns.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the Department had invested \$5,416.9 million in capital assets, including land, buildings, improvements, fixtures, vehicles, equipment, construction in progress, and infrastructure (such as roads and bridges). Net of accumulated depreciation, the Department's net capital assets at June 30, 2020 totaled \$5,127.2 million. This amount represents a net increase (including additions and disposals, and net of depreciation) of \$116.6 million over June 30, 2019. The increase is primarily a result of the following infrastructure and equipment spending: US 301 - \$71.5 million; SR-1 - \$37.2 million; truck, tractor, and equipment purchases - \$13.5 million; and building and land improvements - \$8.2 million.

The Department is using the "modified approach" related to depreciation on its roads and bridges. The modified approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure in fair or better condition and report at least every three years on their condition assessment.

It is the Department's policy to maintain at least 85% of its highway system at a fair or better condition rating and 95% of its national bridge inventory (combined structural and deck ratings) at a fair or better condition rating as follows:

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

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9: 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9. A rating of 5 is considered fair. The information is taken from past "Bridge Inventory Status" reports.

See independent auditors' report.

State of Delaware
Department of Transportation
Management's Discussion and Analysis
June 30, 2020 and 2019

The Department performs condition assessments of eligible infrastructure assets at least every three years. Of the Department's 851 bridge structures that were rated in 2020, 80.3% received a good or better BCR rating, 18.0% were rated fair, and 1.7% received a substandard rating. Of the 8,372,725 square feet of bridge deck that was rated, 69.2%, or 5,794,649 square feet, received an OPC condition rating of good or better, 29.6% received a fair rating, and 1.2% received a substandard deck rating. Of the 4,394 center-line miles that were rated in 2019, 88.6% received a fair or better OPC rating, and 11.2% received a poor rating.

For 2020, the estimated and actual expenditures to maintain and preserve the Department's infrastructure were \$353.7 million and \$493.1 million, respectively.

Debt Administration

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Authority to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2020, the Authority had \$899.9 million in revenue bonds outstanding, a 7.4% increase from June 30, 2019. During Fiscal Year 2020, the Department borrowed an additional \$31.1 million under a TIFIA loan, to provide funding for the US 301 project, and issued an additional \$137.1 million of Transportation System Senior Revenue Bonds, 2019 Series.

At June 30, 2020, the Authority had a total of \$145.1 million in authorized but unissued revenue bonds and \$11.5 million in authorized but unissued GARVEE bonds.

Of the six outstanding Senior Bond Issues, all bonds are rated AA+ and Aa1 by Standard and Poor's and Moody's Investors Service, respectively. The GARVEE Bond, 2010 Series, is rated AA and A1 by Standard and Poor's and Moody's Investors Service, respectively. The US 301 Project Revenue Bonds and the US 301 TIFIA loan are rated A1 and Aa3 by Standard and Poor's and Moody's Investors Service, respectively.

The Department's investment portfolio is actively managed by Wilmington Trust Company and primarily consists of U.S. government securities, U.S. government agency securities, and high-grade commercial paper. The majority of these investments have maturities of less than one year. The Department's bond ratings have allowed continued access to the municipal bond market at favorable interest rates.

Contacting the Department's Financial Management

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the State of Delaware, Department of Transportation, Finance Division, P.O. Box 778, Dover, Delaware 19903.

See independent auditors' report.

State of Delaware
Department of Transportation
 Statements of Net Position
 June 30, 2020 and 2019

	2020	2019
Current assets		
Cash and cash equivalents		
Unrestricted	\$ 31,874,338	\$ 35,411,270
Restricted	69,665,501	31,665,072
Pooled cash and investments	11,075,757	11,503,297
Investments - at fair value		
Unrestricted	63,343,802	103,689,108
Restricted	90,674,438	117,904,080
Accounts receivable		
Trade	22,547,809	23,035,332
Federal grants	54,629,687	21,170,935
Interest	357,611	787,555
Due from State General Fund	19,895,960	22,879,546
Inventory	23,022,133	21,997,748
Other assets	70,463	94,216
	387,157,499	390,138,159
Noncurrent assets		
Capital assets, net (Note 4)	5,127,213,601	5,010,630,896
Investments - at fair value, net of current portion		
Unrestricted	1,045,580	-
Restricted	21,609,405	31,502,364
	5,149,868,586	5,042,133,260
	5,537,026,085	5,432,271,419
Deferred outflows of resources		
Loss on refundings of debt	21,502,236	25,389,950
Changes in assumptions - pension plans and OPEB plans	38,572,486	13,384,979
Net differences between projected and actual earnings on investments - pension and OPEB plans	629,546	3,747,678
Changes in employer proportionate share of net pension liability	327,199	93,838
Changes in employer proportionate share of net OPEB liability	2,137,806	-
Difference between expected and actual experience - pension plans	4,665,200	2,382,211
Contributions made subsequent to the measurement date - pension and OPEB plans	24,318,055	22,342,147
	92,152,528	67,340,803

(Continued)

State of Delaware
Department of Transportation
 Statements of Net Position
 June 30, 2020 and 2019

	2020	2019
Current liabilities		
Accounts payable and other accrued expenses	\$ 79,837,691	\$ 66,647,709
Accrued payroll and related expenses	7,949,299	8,799,963
Escrow deposits	11,075,757	11,503,297
Customer toll deposits	11,422,209	12,266,467
Interest payable	17,532,318	14,773,482
Pollution remediation obligations	49,780	13,750
Insurance loss reserve	1,653,034	1,761,936
Compensated absences	2,089,584	1,803,670
Revenue bonds payable	78,740,000	75,440,000
Bond issue premium - net of accumulated amortization	13,242,469	12,706,908
Total current liabilities	223,592,141	205,717,182
Noncurrent liabilities		
Compensated absences - net of current portion	12,142,361	10,854,157
Insurance loss reserve - net of current portion	7,595,966	7,304,064
Pollution remediation obligations - net of current portion	82,000	-
TIFIA loan payable	223,046,815	191,936,698
Revenue bonds payable - net of current portion	821,170,000	762,775,000
Bond issue premium - net of accumulated amortization	43,287,214	35,684,126
Net pension liability	64,016,323	58,793,820
Net other post-employment benefits liability	455,467,870	433,744,253
Total noncurrent liabilities	1,626,808,549	1,501,092,118
Total liabilities	1,850,400,690	1,706,809,300
Deferred inflows of resources		
Service concession arrangement	15,785,713	16,417,142
Changes in employer proportionate share of net pension liability	730,228	1,210,666
Changes in employer proportionate share of net OPEB liability	579,152	757,969
Differences between expected and actual experience - pension and OPEB plans	54,347,029	24,759,351
Net differences between projected and actual earnings on investments - pension and OPEB plans	3,198,862	3,113,860
Changes in assumptions - OPEB plans	44,563,376	55,466,515
Total deferred inflows of resources	119,204,360	101,725,503
Net position		
Net investment in capital assets	3,982,682,766	3,972,588,463
Restricted	152,710,204	149,544,025
Unrestricted	(475,819,407)	(431,055,069)
Total net position	\$ 3,659,573,563	\$ 3,691,077,419

See independent auditors' report and accompanying notes to financial statements.

State of Delaware
Department of Transportation
Statements of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues		
Pledged revenue - senior revenue bonds		
Turnpike revenue	\$ 116,164,785	\$ 134,922,060
Motor fuel tax revenue	136,824,016	142,821,665
Motor vehicle document fee, registration fee, and other revenue	206,793,521	218,733,154
International Fuel Tax Agreement revenue	1,919,003	1,860,201
Pledged revenue - project revenue bonds		
Toll revenue - US 301	25,833,431	7,013,141
Toll revenue - Delaware SR-1	54,211,068	62,485,383
Passenger fares	13,006,999	17,476,880
Miscellaneous	28,732,619	56,979,405
Total operating revenues	583,485,442	642,291,889
Operating expenses		
Road maintenance, preservation, and repairs	260,962,081	149,293,679
Payroll expense	227,354,694	220,273,785
Professional fees and services	303,137,162	250,227,697
Materials, supplies, and other	52,108,528	48,949,210
Depreciation	32,296,699	32,029,308
Total operating expenses	875,859,164	700,773,679
Operating loss	(292,373,722)	(58,481,790)
Nonoperating revenues (expenses)		
Income from investments - pledged	5,909,992	5,524,248
Income from investments	425,011	531,943
Bad debt recovery, net of expenses	-	(19,955)
Federal grant revenues	298,705,051	212,039,396
Pass-through grant expenses	(10,382,203)	(5,738,675)
Interest expense	(34,863,880)	(33,218,751)
Service concession arrangement	631,429	631,429
Excess of nonoperating revenues over nonoperating expenses	260,425,400	179,749,635
Income before transfers	(31,948,322)	121,267,845
Transfers to other governmental agencies	(8,208,907)	(8,167,828)
Transfers to State General Fund	(6,000,000)	(6,000,000)
Transfers from State General Fund	14,653,373	5,098,657
Increase in net position	(31,503,856)	112,198,674
Net position - beginning of year	3,691,077,419	3,578,878,745
Net position - end of year	\$ 3,659,573,563	\$ 3,691,077,419

See independent auditors' report and accompanying notes to financial statements.

State of Delaware
Department of Transportation
 Statements of Cash Flows
 Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Receipts from customers	\$ 579,389,427	\$ 637,953,620
Payments to suppliers	(597,602,792)	(453,885,926)
Payments to employees	(208,802,213)	(202,931,538)
Insurance claims paid	(4,589,781)	(4,570,260)
Other receipts	3,311,740	3,477,517
Net cash used in operating activities	(228,293,619)	(19,956,587)
Cash flows from noncapital financing activities		
Transfers from State General Fund	14,653,373	5,098,657
Transfers to State General Fund	(6,000,000)	(6,000,000)
Federal receipts for operating activities	6,194,460	6,313,677
Pass-through grant payments	(10,382,203)	(5,738,675)
Transfers to other governmental agencies	(8,208,907)	(8,167,828)
Net cash used in noncapital financing activities	(3,743,277)	(8,494,169)
Cash flows from capital and related financing activities		
Payments of revenue bond principal	(75,440,000)	(74,770,000)
Proceeds from TIFIA loan	24,979,629	80,459,497
Proceeds from revenue bond sales	137,135,000	-
Premium from revenue bond sales	23,285,445	-
Federal receipts for capital and related financing activities	259,051,839	211,318,333
Acquisition of capital assets	(148,979,487)	(248,830,181)
Payments of interest	(37,233,638)	(40,916,746)
Net cash provided by (used in) capital and related financing activities	182,798,788	(72,739,097)
Cash flows from investing activities		
Purchase of investments	(3,975,370,974)	(3,535,865,304)
Proceeds from sale of investments	4,051,893,384	3,638,087,158
Escrow insurance deposits	(13,292)	134,864
Interest received	6,764,947	6,187,383
Net cash provided by investing activities	83,274,065	108,544,101
Net increase in cash and cash equivalents	34,035,957	7,354,248
Cash and cash equivalents - beginning of year	78,579,639	71,225,391
Cash and cash equivalents - end of year	\$ 112,615,596	\$ 78,579,639

(Continued)

State of Delaware
Department of Transportation
 Statements of Cash Flows
 Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (292,373,722)	\$ (58,481,790)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	32,296,699	32,029,308
Changes in assets and deferred outflows of resources		
(Increase) decrease in accounts receivable - trade	487,523	(794,777)
(Increase) decrease in due from State General Fund	2,983,586	(3,957,546)
Increase in inventory	(1,024,385)	(1,424,040)
(Increase) decrease in prepaid expenses	37,045	(20,711)
Increase in deferred outflows of resources	(28,018,290)	(3,888,200)
Changes in liabilities and deferred inflows of resources		
Increase in accounts payable and other accrued expenses	13,189,982	1,383,972
Increase (decrease) in escrow deposits	(427,540)	370,390
Increase (decrease) in insurance loss reserve	183,000	(113,000)
Decrease in due to State General Fund	-	(5,573,127)
Increase in compensated absences	1,574,118	1,041,492
Increase (decrease) in accrued payroll and related expenses	(850,664)	1,087,146
Decrease in customer toll deposits	(844,258)	(436,365)
Increase (decrease) in pollution remediation obligations	118,030	(70,750)
Increase in net pension liability	5,222,503	3,620,888
Increase (decrease) in net other post-employment benefits liability	21,723,617	(10,098,145)
Increase in deferred inflows of resources	17,429,137	25,368,668
Net cash used in operating activities	\$ (228,293,619)	\$ (19,956,587)
Supplemental disclosure of noncash capital financing activities		
Interest capitalized on TIFIA loan	\$ 6,130,488	\$ 4,572,450

See independent auditors' report and accompanying notes to financial statements.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(1) Organization

The Delaware Department of Transportation (the Department) is a major proprietary fund and a component unit of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. In addition, the Department has overall responsibility for maintenance and operation of roadways and bridges that fall under its jurisdiction. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the activities of the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC). The Authority is a body politic and corporate whose actions are overseen by the Secretary of Transportation (the Secretary), the Director of the Office of Financial Management and Budget, and the Administrator of the Trust Fund. The Authority's principal role is to provide financing to the Department and, as a result, is a blended component unit of the State and is included in these financial statements on a blended basis.

The Trust Fund was created by the State as a special fund with its corporate powers held by the Authority, under the Transportation Trust Fund Act of 1987 (the TTF Act). The underlying purpose of the TTF Act and the Trust Fund is to address the growing urgency to provide additional means to finance the maintenance and development of the integrated highway, air, and water transportation system in the State for the economic benefit of the State and for the welfare and safety of the users of the transportation system. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation-related fees, which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 and US 301 Toll Roads. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financing for these projects. The TTF Act also granted the Authority the power to issue bonds payable from and secured by the revenues pledged and assigned to the Trust Fund.

The trust agreements in effect are the Motor Fuel Tax Revenue Bond Trust Agreement (the Motor Fuel Tax Agreement), dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement (the Trust Agreement), dated August 1, 1988, as supplemented. The Trust Agreement is a bond indenture, intended to ensure payment to bondholders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department. The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created on November 17, 1994 as a subsidiary public benefit corporation of the Authority. With approval of the Governor, the Secretary appoints the Director of DTC, who serves at the pleasure of the Secretary. The Authority provides significant operational subsidies to DTC annually. DTC is authorized to operate the public transportation system within the State and provides services directly to the public. As a result, it is a blended component unit of the Authority. Separate financial statements for DTC are available by writing to the State of Delaware, Department of Transportation, 800 Bay Road, Dover, Delaware 19903.

(2) Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

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

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less when purchased.

The Department maintains cash escrow accounts for administrative purposes and has classified these cash balances as restricted. An offsetting liability is recorded in the accompanying statements of net position.

(c) Allowance for Doubtful Accounts

Accounts receivable 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, 2020 and 2019, the allowance for doubtful accounts receivable was \$178,497 and \$254,919, respectively. Uncollectible accounts receivable are charged off when management determines that all reasonable collection efforts have been exhausted.

(d) Inventory

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

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(e) Investments

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

(f) Management Estimates

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

(g) Capital Assets

Capital assets, which include land, buildings, improvements, fixtures, vehicles, equipment, construction in progress, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the Department's financial statements.

Capital assets are defined by the State as assets with an initial individual acquisition cost of more than \$25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department, with the exception of DTC, to capitalize all buildings and land regardless of cost, improvements to land and buildings when the cost of projects exceed \$100,000, and infrastructure when the cost of individual items or projects exceeds \$1,000,000. Such assets are recorded at historical cost, or estimated historical cost, if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings, improvements, fixtures, vehicles, and equipment are depreciated on a straight-line basis.

Capital assets are defined by DTC as all assets purchased with State and federal grant funds, as well as any asset with an individual acquisition cost greater than \$5,000 purchased with operating funds.

For assets not part of infrastructure, the costs of normal preservation, maintenance, and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

For infrastructure, the Department uses the "modified approach" to account for roads and bridges. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: (1) commit to maintaining and preserving affected assets at or

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

above a condition level established by the Department, (2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and (3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

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

Buildings, improvements, fixtures, vehicles, and equipment, other than those associated with service concession agreements, are depreciated using the straight-line method over the following estimated useful lives:

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

(h) *Compensated Absences*

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Department and its employees are accounted for in the period in which such services are rendered or such events take place.

(i) *Line of Credit*

The Trust Fund has a line of credit agreement with PNC Bank for \$50,000,000, which matures in November 2020. There were no borrowings against the line at June 30, 2020. The line bears interest on the amount that has been advanced from time to time pursuant to the bank loan agreement at an annual rate equal to 80% of the daily LIBOR rate plus .67%. At June 30, 2020, the interest rate was equal to 0.7347%.

(j) *Revenue Recognition*

Turnpike/Toll Revenue - Turnpike/Toll revenues consist primarily of fees for the usage of the Delaware Turnpike and the toll portion of Delaware SR-1 and US 301 and are recognized at the time vehicles pass through the toll plazas.

Motor Fuel Tax Revenue - Motor fuel tax revenues are generally recognized at the time fuel is dispensed to the ultimate user.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Motor Vehicle Revenue - Motor vehicle revenues are recognized at the time services are provided to customers.

Passenger Fares - Passenger fare revenues are recorded at the time services are provided. Revenues from DART cards are recognized at the point of sale.

(k) *Bond Issue Premiums/Discounts*

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Net amortization resulted in a reduction in interest expense of \$15,146,796 and \$14,424,537 in 2020 and 2019, respectively.

(l) *Revenues and Expenses*

The Department defines nonoperating revenues as federal grant revenues, investment income, and collections on loans previously written off. Pledged revenue represents taxes, fees, and investment income committed to repayment of revenue bonds. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses and interest expense. All other expenses are a result of normal operations.

(m) *Deferred Outflows of Resources and Deferred Inflows of Resources*

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

(n) *Pension*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the DTC OPEB Trust and additions to/deductions from the DTC OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the DTC OPEB Trust. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(p) Governmental Accounting Standards Board (GASB) Statements Not Yet Adopted

The following statements were issued by GASB, which management believes may impact the financial reporting of the Department.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The primary objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement is also intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective date of Statement No. 84 one year, making it effective for reporting periods beginning after December 15, 2019. The Department has not adopted GASB Statement No. 84 as of June 30, 2020.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective date of Statement No. 87 by 18 months, making it effective for reporting periods beginning after December 15, 2020. The Department has not adopted GASB Statement No. 87 as of June 30, 2020.

(3) Deposits and Investments

(a) Cash Management Policy and Investment Guidelines

The Department follows the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for investment of all money belonging to the State or on deposit from its political subdivisions, other than money deposited in any State Pension Fund or the State Deferred Compensation Program and to determine the terms, conditions, and other matters relating to those investments, including the designation of permissible investments (29 Del.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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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
- Settlement accounts

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

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

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

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

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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

(b) Custodial Credit Risk

Cash and Cash Equivalents

The Department's cash and cash equivalents held at external financial institutions at June 30, 2020 and 2019 were \$101,539,839 and \$67,076,342, respectively, and the bank balances were \$101,890,669 and \$66,482,236, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits-in-transit. Of the bank balances, \$29,066,077 and \$31,709,191 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2020 and 2019, respectively. The remaining bank balances of \$72,824,592 and \$34,773,045 were neither insured nor collateralized at June 30, 2020 and 2019, respectively.

As of June 30, 2020 and 2019, the Department also had \$11,075,757 and \$11,503,297, respectively, held in the State Investment Pool by the State Treasurer's Office. The State Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The State Investment Pool includes deposit accounts and short- and long-term investments. The deposits held in the State Investment Pool are allocated to the Department, but the custodial credit risk cannot be categorized for these deposits.

Investments

At June 30, 2020 and 2019, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name. The Department measures and records its investments using fair value measurement guidelines. 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.

<u>Description</u>	<u>Investments at Fair Value at</u> <u>June 30, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments measured at fair value				
U.S. government securities	\$ -	\$ 73,590,402	\$ -	\$ 73,590,402
U.S. government agency securities	-	65,727,763	-	65,727,763
Commercial paper	-	37,355,060	-	37,355,060
Total investments	<u>\$ -</u>	<u>\$ 176,673,225</u>	<u>\$ -</u>	<u>\$ 176,673,225</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

<u>Description</u>	Investments at Fair Value at June 30, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments measured at fair value				
U.S. government securities	\$ -	\$ 49,984,359	\$ -	\$ 49,984,359
U.S. government agency securities	-	111,385,320	-	111,385,320
Commercial paper	-	<u>91,725,873</u>	-	<u>91,725,873</u>
Total investments	<u>\$ -</u>	<u>\$ 253,095,552</u>	<u>\$ -</u>	<u>\$ 253,095,552</u>

Investments categorized as Level 2 are valued through several industry accepted methodologies including yield to maturity and benchmark yields. Standard inputs in the valuation methodologies include reported trades, broker/dealer quotes, issuer spreads, and market publications.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Department accounts, at the time of purchase, shall not exceed two 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, 2020:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. government securities	\$ 73,590,402	\$ 72,544,822	\$ 1,045,580	\$ -
U.S. government agency securities	65,727,763	44,118,358	21,609,405	-
Commercial paper	<u>37,355,060</u>	<u>37,355,060</u>	-	-
Total investments	<u>\$ 176,673,225</u>	<u>\$ 154,018,240</u>	<u>\$ 22,654,985</u>	<u>\$ -</u>

The following table presents a listing of directly held investments and related maturities at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. government securities	\$ 49,984,359	\$ 34,488,035	\$ 15,496,324	\$ -
U.S. government agency securities	111,385,320	95,379,280	16,006,040	-
Commercial paper	<u>91,725,873</u>	<u>91,725,873</u>	-	-
Total investments	<u>\$ 253,095,552</u>	<u>\$ 221,593,188</u>	<u>\$ 31,502,364</u>	<u>\$ -</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(d) Credit Risk

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

The Policy requires that investments in:

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

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

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

In addition, the Trust Agreement limits investments in commercial paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in commercial paper of \$37,355,060 and \$91,725,873 at June 30, 2020 and 2019, respectively. All commercial paper held matures within five years and is rated in accordance with the Trust Agreement. The investments in U.S. government and government agency securities are rated at Aaa with Moody's and AA+ with Standard & Poor's.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(e) Investments in Excess of 5%

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

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

- A. U.S. Treasury obligations - no restrictions.
- B. U.S. government agency obligations - 50% in total; 20% in any one issuer.
- C. Certificates of deposit and time deposits - 50% in total (domestic and non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.
- D. Corporate debt - 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.
- E. Repurchase agreements - 50% in total; provided that any securities purchased subject to repurchase agreements shall be subject to the respective Percentage Limit for such security type as set forth in the Policy and valued for such purposes at the lesser of fair market value and 102% of the maturity value of the securities pursuant to the repurchase agreement and marked-to-the-market daily as requested by the investment manager.
- F. Money market funds - no restrictions.
- G. Canadian treasuries - 25% in total.
- H. Canadian agency securities - 25% in total; 10% in any one agency.
- I. Mortgage-backed and asset-backed securities - 10% in total.
- J. Supranational organizations or international agencies - 25% in total; 10% in any one agency.

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2020:

United States Treasury	\$ 73,590,402	30%
Federal Home Loan Mortgage Corporation	32,070,977	13%
Federal National Mortgage Association	19,173,145	8%

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2019:

Federal National Mortgage Association	\$ 63,287,316	22%
United States Treasury	49,984,359	18%
Federal Home Loan Mortgage Corporation	30,949,145	11%

(f) 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 Department does not have a formal policy governing foreign currency risk, the Department manages its exposure to fair value loss by requiring its investment managers to maintain diversified portfolios to limit foreign currency risk. The Department does not deem foreign currency risk significant.

(g) Investment Commitments

The Department has made no investment commitments as of June 30, 2020.

(h) Funding of Unpaid Loss Insurance Reserve Liability

Included in cash at June 30, 2020 and 2019 was \$9,235,708 and \$9,066,000, respectively, which will be utilized to fund the remaining loss insurance reserve liability (Note 16), net of escrow insurance deposits.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(4) Capital Assets

Capital asset activity for the Fiscal Year Ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 357,779,688	\$ 8,767,332	\$ -	\$ 366,547,020
Infrastructure	4,301,367,025	53,965,935	-	4,355,332,960
Service concession buildings and improvements	22,100,000	-	-	22,100,000
Construction-in-progress	<u>58,620,065</u>	<u>40,744,088</u>	<u>(3,602,987)</u>	<u>95,761,166</u>
Total capital assets not being depreciated	4,739,866,778	103,477,355	(3,602,987)	4,839,741,146
Capital assets being depreciated				
Land improvements	7,092,695	932,478	-	8,025,173
Buildings and improvements	186,360,423	18,129,276	(6,781,336)	197,708,363
Furniture, vehicles, and equipment	<u>343,713,607</u>	<u>36,954,329</u>	<u>(9,244,162)</u>	<u>371,423,774</u>
Total capital assets being depreciated	537,166,725	56,016,083	(16,025,498)	577,157,310
Less: accumulated depreciation for				
Land improvements	1,082,484	401,075	-	1,483,559
Buildings and improvements	63,982,498	5,859,771	-	69,842,269
Furniture, vehicles, and equipment	<u>201,337,625</u>	<u>26,035,853</u>	<u>(9,014,451)</u>	<u>218,359,027</u>
Total accumulated depreciation	<u>266,402,607</u>	<u>32,296,699</u>	<u>(9,014,451)</u>	<u>289,684,855</u>
Total capital assets being depreciated, net	<u>270,764,118</u>	<u>23,719,384</u>	<u>(7,011,047)</u>	<u>287,472,455</u>
Total capital assets, net	<u>\$ 5,010,630,896</u>	<u>\$ 127,196,739</u>	<u>\$ (10,614,034)</u>	<u>\$ 5,127,213,601</u>

Depreciation expense for Fiscal Year 2020 was \$32,296,699.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Capital asset activity for the Fiscal Year Ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 320,563,244	\$ 37,216,444	\$ -	\$ 357,779,688
Infrastructure	4,185,972,459	115,394,566	-	4,301,367,025
Service concession buildings and improvements	22,100,000	-	-	22,100,000
Construction-in-progress	<u>12,257,131</u>	<u>54,635,156</u>	<u>(8,272,222)</u>	<u>58,620,065</u>
Total capital assets not being depreciated	4,540,892,834	207,246,166	(8,272,222)	4,739,866,778
Capital assets being depreciated				
Land improvements	5,601,809	1,490,886	-	7,092,695
Buildings and improvements	168,030,193	18,330,230	-	186,360,423
Furniture, vehicles, and equipment	<u>322,756,441</u>	<u>30,211,459</u>	<u>(9,254,293)</u>	<u>343,713,607</u>
Total capital assets being depreciated	496,388,443	50,032,575	(9,254,293)	537,166,725
Less: accumulated depreciation for				
Land improvements	745,422	337,062	-	1,082,484
Buildings and improvements	58,509,078	5,473,420	-	63,982,498
Furniture, vehicles, and equipment	<u>184,134,355</u>	<u>26,218,826</u>	<u>(9,015,556)</u>	<u>201,337,625</u>
Total accumulated depreciation	<u>243,388,855</u>	<u>32,029,308</u>	<u>(9,015,556)</u>	<u>266,402,607</u>
Total capital assets being depreciated, net	<u>252,999,588</u>	<u>18,003,267</u>	<u>(238,737)</u>	<u>270,764,118</u>
Total capital assets, net	<u>\$ 4,793,892,422</u>	<u>\$ 225,249,433</u>	<u>\$ (8,510,959)</u>	<u>\$ 5,010,630,896</u>

Depreciation expense for Fiscal Year 2019 was \$32,029,308.

(5) Changes in Long-Term Liabilities

Long-term liability activity for the Fiscal Year Ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 838,215,000	\$ 137,135,000	\$ (75,440,000)	\$ 899,910,000	\$ 78,740,000
TIFIA loan payable	191,936,698	31,110,117	-	223,046,815	-
Bond issue premium, net of accumulated amortization	48,391,034	23,285,445	(15,146,796)	56,529,683	13,242,469
Insurance loss reserve	9,066,000	4,772,781	(4,589,781)	9,249,000	1,653,034
Net other post-employment benefits	433,744,253	21,723,617	-	455,467,870	-
Pollution remediation obligations	13,750	118,030	-	131,780	49,780
Net pension liability	58,793,820	5,222,503	-	64,016,323	-
Compensated absences	<u>12,657,827</u>	<u>3,377,788</u>	<u>(1,803,670)</u>	<u>14,231,945</u>	<u>2,089,584</u>
Long-term liabilities	<u>\$ 1,592,818,382</u>	<u>\$ 226,745,281</u>	<u>\$ (96,980,247)</u>	<u>\$ 1,722,583,416</u>	<u>\$ 95,774,867</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Long-term liability activity for the Fiscal Year Ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 912,985,000	\$ -	\$ (74,770,000)	\$ 838,215,000	\$ 75,440,000
TIFIA loan payable	106,904,751	85,031,947	-	191,936,698	-
Bond issue premium, net of accumulated amortization	62,815,571	-	(14,424,537)	48,391,034	12,706,908
Insurance loss reserve	9,179,000	4,457,260	(4,570,260)	9,066,000	1,761,936
Net other post-employment benefits	443,842,398	-	(10,098,145)	433,744,253	-
Pollution remediation obligations	84,500	-	(70,750)	13,750	13,750
Net pension liability	55,172,932	3,620,888	-	58,793,820	-
Compensated absences	<u>11,616,335</u>	<u>2,923,101</u>	<u>(1,881,609)</u>	<u>12,657,827</u>	<u>1,803,670</u>
Long-term liabilities	<u>\$ 1,602,600,487</u>	<u>\$ 96,033,196</u>	<u>\$ (105,815,301)</u>	<u>\$ 1,592,818,382</u>	<u>\$ 91,726,264</u>

(6) Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2020 and 2019 were as follows:

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description and Fixed Interest Rates</u>	<u>2020</u>	<u>2019</u>
Senior Bonds:				
2008/2019	\$ 117,875,000	Transportation System Senior Revenue Bonds, 2008B, 5.00%	\$ -	\$ 5,480,000
2009/2019	105,315,000	Transportation System Senior Revenue Bonds, 2009A, 5.00%	-	5,195,000
2010/2019	47,715,000	Transportation System Senior Revenue Bonds, 2010A, 5.00%	-	5,485,000
2010/2030	72,120,000	Transportation System Senior Revenue Bonds, 2010B, 3.95% - 5.80%	67,050,000	72,120,000
2012/2024	222,870,000	Transportation System Senior Revenue Bonds, 2012, 3.00% - 5.00%	110,245,000	131,800,000
2014/2025	108,760,000	Transportation System Senior Revenue Bonds, 2014, 2.25% - 5.00%	51,745,000	66,710,000
2016/2029	181,475,000	Transportation System Senior Revenue Bonds, 2016, 2.00% - 5.00%	179,400,000	181,475,000
2017/2037	107,000,000	Transportation System Senior Revenue Bonds, 2017, 2.50% - 5.00%	93,480,000	100,720,000

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description and Fixed Interest Rates</u>	<u>2020</u>	<u>2019</u>
2019/2039	137,135,000	Transportation System Senior Revenue Bonds, 2019, 3.00% - 5.00%	\$ 137,135,000	\$ -
Other Bonds:				
2010/2025	113,490,000	Transportation System Grant Anticipation (GARVEE) Bonds, 2010, 3.25% - 5.00%	48,320,000	56,695,000
2015/2055	212,535,000	Transportation System US 301 Project Revenue Bonds, 2015, 3.25% - 5.00%	<u>212,535,000</u>	<u>212,535,000</u>
		Total bonds payable	899,910,000	838,215,000
		Less: current portion	<u>78,740,000</u>	<u>75,440,000</u>
		Long-term portion	<u>\$ 821,170,000</u>	<u>\$ 762,775,000</u>

The State has pledged turnpike, motor fuel tax, and motor vehicle fee revenues to the Trust Fund in order to support repayments of revenue bonds. Proceeds from the revenue bonds were used to finance the infrastructure maintenance, preservation, and construction-related projects of the State's highway transportation system, as well as security for the repayment of the outstanding revenue bonds of the Authority.

The 2015 Series US 301 Project Revenue Bonds are secured by pledged revenues from US 301 tolls and a subordinate lien on other pledged revenue, including motor fuel tax, state registration and document fees, and Delaware Turnpike toll and concession revenues. Proceeds were used to finance US 301 construction.

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State or of any such political subdivision. Annual principal and interest payments on the revenue bonds are expected to require less than 25% of pledged revenues. Principal and interest paid on the revenue bonds for the Fiscal Years Ended June 30, 2020 and 2019 were \$112,673,638 and \$115,686,745, respectively.

The Transportation System Senior Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. The pledged revenues of the Authority were as follows at June 30,:

	<u>2020</u>	<u>2019</u>
Pledged operating revenues	\$ 487,534,756	\$ 505,350,221
Investment income	<u>5,909,992</u>	<u>5,524,248</u>
Total pledged revenues	<u>\$ 493,444,748</u>	<u>\$ 510,874,469</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The Transportation System GARVEE Bonds have fixed interest rates and are limited obligations of the Authority secured by and payable solely from the annual federal appropriation for the State's federal aid transportation projects. On average, the State has been apportioned approximately \$187.6 million in federal highway aid annually over the past five fiscal years. At that level, principal and interest payments on the GARVEE bonds are expected to require approximately 5.9% of pledged federal highway aid annually. While the Authority believes that sufficient pledged federal highway aid will be available during the term of the bonds to meet all required principal and interest payments, various factors beyond the Authority's control may impact the ability to make all payments when due, including, but not limited to, subsequent reauthorization of federal highway aid and federal budgetary limitations.

At June 30, 2020 and 2019, the Authority had a total of \$156,624,726 and \$267,018,289, respectively, in authorized but unissued revenue bonds, including \$11,510,000 in GARVEE bond authorization, to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2020 was as follows:

<u>Years Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2021	\$ 78,740,000	\$ 40,879,907	\$ 119,619,907
2022	81,460,000	35,301,218	116,761,218
2023	80,760,000	31,329,721	112,089,721
2024	71,735,000	27,457,730	99,192,730
2025	66,980,000	24,266,220	91,246,220
2026 - 2030	194,335,000	89,255,512	283,590,512
2031 - 2035	75,590,000	61,804,225	137,394,225
2036 - 2040	77,085,000	49,051,336	126,136,336
2041 - 2045	31,450,000	40,034,900	71,484,900
2046 - 2050	54,590,000	30,429,750	85,019,750
2051 - 2055	87,185,000	13,714,000	100,899,000
	<u>\$ 899,910,000</u>	<u>\$ 443,524,519</u>	<u>\$ 1,343,434,519</u>

(7) Debt Defeasance

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures.

For financial reporting purposes, the debt is considered defeased and, therefore, not reported as a liability. As of June 30, 2020, there was no defeased debt outstanding. As of June 30, 2019, the amount of defeased debt outstanding amounted to \$141,250,000.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(8) TIFIA Loan Payable

The Authority has obtained a loan from the Federal Highway Administration (FHWA) under the Transportation Infrastructure Finance and Innovation Act (TIFIA) to borrow up to \$211,350,000, excluding capitalized interest, to finance construction on the US 301 toll road project (the Project). Funds are reimbursed by FHWA as costs are incurred on the Project. Interest accrues at 2.94%, compounded semi-annually. Interest payments are deferred five years from the projected end of construction, with the first interest payment expected to be due December 1, 2023. Principal payments are deferred nine years and six months from the projected end of construction, with the first principal payment expected to be due June 1, 2028. Final maturity on the loan is the earlier of the 35th anniversary of the substantial completion date of the Project or December 31, 2053.

The loan has mandatory prepayment requirements to the extent revenues generated from the Project exceed certain amounts as defined in the loan agreement. The loan agreement also allows for optional prepayments without penalty. The loan is secured by the toll revenues generated by the Project, with an additional subordinated lien on pledged revenues of the Trust Fund.

As of June 30, 2020 and 2019, the total outstanding loan payable, including capitalized interest of \$11,811,815 and \$6,356,379, was \$223,046,815 and \$191,936,698, respectively. The loan was fully funded during the 2020 Fiscal Year. Interest for 2021-2023 will be capitalized resulting in a total loan balance of \$243,447,181. Projected debt service on the loan, including capitalized interest, was as follows at June 30, 2020:

Years Ending June 30,	Principal Maturity	Interest Maturity	Total*
2021	\$ -	\$ -	\$ -
2022	-	-	-
2023	-	-	-
2024	-	7,167,152	7,167,152
2025	-	7,147,543	7,147,543
2026 - 2030	2,824,163	35,712,548	38,536,711
2031 - 2035	13,853,225	34,553,232	48,406,457
2036 - 2040	29,295,851	31,822,856	61,118,707
2041 - 2045	48,024,275	26,352,533	74,376,808
2046 - 2050	70,924,741	18,022,185	88,946,926
2051 - 2055	78,524,926	5,635,939	84,160,865
	<u>\$ 243,447,181</u>	<u>\$ 166,413,988</u>	<u>\$ 409,861,169</u>

* Debt service requirements subject to change based on timing and amount of final disbursements and any mandatory or voluntary prepayments.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(9) Restricted Net Position

Restricted net position was as follows at June 30,:

	<u>2020</u>	<u>2019</u>
Rebate funds		
Amounts generated from operations to meet future arbitrage rebate requirements	\$ 615,937	\$ 467,169
Debt service funds		
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments	87,135,905	84,594,882
Debt reserve funds		
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments	64,776,253	64,289,891
Highway beautification funds		
Amounts held in trust to be used for highway beautification	<u>182,109</u>	<u>192,083</u>
Total restricted net position	<u>\$ 152,710,204</u>	<u>\$ 149,544,025</u>

(10) International Registration Plan

The Department participates in the International Registration Plan (IRP) pursuant to Section 4008 of the Intermodal Surface Transportation Efficiency Act of 1997 (ISTEA). ISTEA requires jurisdictions to join base state agreements for the collection and distribution of commercial vehicle registration fees. IRP is an agreement among member jurisdictions whereby commercial registration fees are collected and reallocated based on a proration of miles traveled in each jurisdiction. Net revenues recorded during Fiscal Years 2020 and 2019 were \$11,656,334 and \$12,920,866, respectively. IRP fees are included in motor vehicle document fee, registration fee, and other revenue.

(11) International Fuel Tax Agreement

The Department participates in the International Fuel Tax Agreement (IFTA). IFTA is an agreement among member jurisdictions whereby commercial license fees are collected and reallocated based on a proration of miles traveled in each jurisdiction. Net revenues recorded during Fiscal Years 2020 and 2019 were \$1,919,003 and \$1,860,201, respectively.

(12) DTC Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement (CBA) covered the period from September 1, 2016 through August 31, 2019. As of the date of this report, a new CBA has not been signed and both parties continue to operate under the expired contract terms.

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 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. As of the date of this report, a new CBA has not been signed and both parties continue to operate under the expired contract terms.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employees International Union AFL-CIO, Local 32. The term of the current CBA covers the period from January 1, 2017 through December 31, 2020.

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, 2019 through June 30, 2023.

(13) Pension Plans

A. State Employees' Pension Plan

With the exception of DTC employees (see Note 13B); the Department's full-time employees are covered by the State Employees' Pension Plan (the Plan), a cost-sharing, multiple-employer, defined benefit plan, which is administered by the Delaware Public Employees Retirement System (DPERS). The General Assembly is responsible for setting benefits and contributions and amending Plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Pension Board).

Detailed information concerning the Plan is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, Delaware 19904-2402.

(1) Plan Description and Eligibility

The Plan covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities. There are two tiers within this Plan: 1) Employees hired prior to January 1, 2012 (Pre-2012) and 2) Employees hired on or after January 1, 2012 (Post-2011).

Service Benefits

Final average monthly compensation (employees hired Post-2011 may not include overtime in pension compensation) multiplied by 2% and multiplied by the years of credited service prior to January 1, 1997, plus final average monthly compensation, multiplied by 1.85%, and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For the Plan, final average monthly compensation is the monthly average of the highest three periods of 12 consecutive months of compensation.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Vesting

Pre-2012 date of hire members are fully vested after five years of credited service, and Post-2011 date of hire members are fully vested after 10 years of credited service.

Retirement

Pre-2012 date of hire members are eligible to retire at age 62 with five years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Post-2011 date of hire members are eligible to retire at age 65 with at least 10 years of credited service; age 60 with 20 years of credited service; or with 30 years of credited service at any age.

Disability Benefits

Pre-2012 date of hire members mirror service benefits as previously noted and must have five years of credited service. In lieu of disability pension benefits, over 90% of members of the Plan opted into the Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 date of hire members are provided disability benefits through the State's Disability Insurance Program.

Survivor Benefits

If an employee is receiving a pension and passes away, the eligible survivor receives 50% of the pension (or 67.7% with 2% reduction of benefit, 75% with 3% reduction of benefit, or 100% with 6% reduction of benefit). If an employee is active with at least five years of credited service and passes away, the eligible survivor receives 75% of the benefit the employee would have received at age 62. The amount payable to a surviving spouse under age 50 at the time the survivor's pension begins shall be reduced for each month under age 50 in accordance with actuarial tables approved by the Pension Board. Any actuarial reduction for such a spouse shall, however, not apply for the period during which the spouse has in his or her care, an unmarried child or children.

Burial Benefit

The burial benefit is \$7,000 per member.

Contributions

The Pension Board's employer-determined contributions were based principally on an actuarially determined rate for Fiscal Years 2020 and 2019. The Department's contributions to the Plan for Fiscal Years 2020 and 2019 were \$9,118,264 and \$8,743,943, respectively. Pre-2012 date of hire members are required to contribute 3% of earnings in excess of \$6,000, and Post-2011 date of hire members are required to contribute 5% of earnings in excess of \$6,000.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(2) Allocation Percentage Methodology

In accordance with GASB No. 68, DPERS prepared a Schedule of Pension Amounts by Participating Employer, which calculates the employer's proportionate share of the Plan's collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. DPERS's management has elected to allocate the employer's proportionate shares of the collective pension amounts based on the percentage of actual employer contributions. The Department's proportionate share of the collective pension amounts was 3.5647% and 3.5295% at June 30, 2019 and 2018, respectively, which represents an increase of 0.0352% and 0.0060% from the Department's proportionate share as of June 30, 2018 and 2017, respectively.

(3) Net Pension Liability

For the Fiscal Years Ended June 30, 2020 and 2019, the Department reported a net pension liability in the amount of \$55,465,933 and \$45,582,509, respectively, for its proportionate share of the Plan's collective net pension liability as of June 30, 2019 and 2018, respectively, the Department's measurement dates. The Plan's total pension liability as of the June 30, 2019 and 2018 measurement dates was determined by actuarial valuations as of June 30, 2018 and 2017, respectively, and update procedures were used to roll forward the valuation results to June 30, 2019 and 2018, respectively. The actuarial valuations and related update procedures used the following actuarial assumptions for all periods included in the measurements:

	2019	2018
Investment rate of return/discount rate, including inflation	7.00%	7.00%
Projected salary increases, including inflation	2.50% + Merit	2.50% + Merit
Cost-of-living adjustments	0.00%	0.00%
Inflation	2.50%	2.50%

These assumptions are based on an experience study conducted in 2016. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version of the MP-2015 mortality improvement scale on a fully generational basis.

Long-Term Expected Rate of Return - The long-term expected rate of return on Plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

of return by an asset allocation percentage, which is based on the nature and mix of current and expected Plan investments, and adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the DPERS's current and expected asset allocation are summarized in the following table as of the June 30, 2019 measurement date:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	5.7 %	29.5 %
International equity	5.7	13.5
Fixed income	2.0	27.1
Non-traditional investments	7.8	22.4
Cash and cash equivalents	-	7.5

Best estimates of geometric real rates of return for each major asset class included in the DPERS's current and expected asset allocation are summarized in the following table as of the June 30, 2018 measurement date:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	5.7 %	30.7 %
International equity	5.7	13.9
Fixed income	2.0	23.3
Non-traditional investments	7.8	24.4
Cash and cash equivalents	-	7.7

Discount Rate - The discount rate used to measure the total pension liability was 7.0% for all measurement periods. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Pension Board, as actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the Plan's net pension liability, calculated using the discount rate of 7.0%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or higher than the current rate (expressed in thousands):

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Valuation Date	1% Decrease	Discount Rate	1% Increase
June 30, 2019	\$ 100,282	\$ 55,515	\$ 17,925
June 30, 2018	\$ 88,457	\$ 45,582	\$ 9,582

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

For the Fiscal Years Ended June 30, 2020 and 2019, the Department recognized \$15,773,147 and \$9,260,130 in pension expense, respectively, which represents its proportionate share of the Plan's collective pension expense.

Contributions Made Subsequent to the Measurement Period - Contributions made subsequent to the measurement period of June 30, 2019 (Fiscal Year 2020 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net pension liability in Fiscal Year 2021.

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.

Changes in Employer Proportionate Share - The change in employer proportionate share is the amount of the difference between the employer proportionate share of the net pension liability in the prior year compared to the current year. This change in proportion is amortized over the weighted average of the expected remaining service life of active and inactive Plan members. The first year of amortization is recognized as pension expense, with the remaining years recognized as a deferred inflow or outflow of resources.

Net Differences Between Projected and Actual Investment Earnings on Pension Plan Investments - The difference between the actual earnings on Plan investments compared to the Plan's expected rate of return of 7.0% 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 a deferred inflow of resources.

The following presents the deferred outflows of resources and deferred inflows of resources related to the Plan as of June 30, 2020:

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual investment earnings on pension plan investments	\$ 629,546	\$ -
Changes in assumptions	5,757,819	-
Difference between expected and actual experience	4,665,200	407,121
Changes in employer proportionate share of net pension liability	327,199	730,228
Employer contributions made subsequent to the measurement date	<u>9,118,264</u>	<u>-</u>
Totals	<u>\$ 20,498,028</u>	<u>\$ 1,137,349</u>

The following presents the deferred outflows of resources and deferred inflows of resources related to the Plan as of June 30, 2019:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual investment earnings on pension plan investments	\$ -	\$ 1,932,218
Changes in assumptions	7,936,448	-
Difference between expected and actual experience	2,382,211	657,865
Changes in employer proportionate share of net pension liability	93,838	1,210,666
Employer contributions made subsequent to the measurement date	<u>8,743,943</u>	<u>-</u>
Totals	<u>\$ 19,156,440</u>	<u>\$ 3,800,749</u>

The Department reported \$9,118,264 as deferred outflows of resources related to the Plan resulting from Department contributions made subsequent to the measurement date of June 30, 2019 (Fiscal Year 2020 contributions), which will be recognized as a reduction of the net pension liability for the Fiscal Year Ending June 30, 2021.

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Other amounts reported related to the Department's proportionate share of the deferred outflows of resources and deferred inflows of resources will be recognized in pension expense during the Fiscal Years Ending June 30,:

2021	\$ 5,102,899
2022	278,133
2023	1,743,541
2024	2,494,356
2025	623,486

B. DTC Pension Plans

(1) Plan Descriptions

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

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

The DART Plan is a single-employer, defined benefit, contributory plan covering members of Local 32, Office and Professional Employees International Union AFL-CIO, and Local 842, Amalgamated Transit Union AFL-CIO and its collective bargaining units: the North District Fixed Route and Maintenance Employees and the Paratransit and Greater Dover Area Fixed Route Drivers, who are employed by DTC.

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

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

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

	<u>2019</u>	<u>2018</u>
Active members	329	314
Inactive members or beneficiaries		
currently receiving benefits	93	84
Terminated, vested members	<u>101</u>	<u>96</u>
Totals	<u>523</u>	<u>494</u>

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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

	2019	2018
Active members	671	668
Inactive members or beneficiaries		
currently receiving benefits	206	197
Terminated, vested members	107	103
Totals	984	968

(2) Benefits

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

Death benefits for a 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 DTC plan was amended to add a survivorship pop-up benefit for participants who retire on or after January 1, 2018 and elect a joint and survivorship annuity.

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. As of December 31, 2019 and 2018, the monthly benefit was \$72.50 and \$70.50 per year of service, respectively.

This benefit is then multiplied by the applicable years of service credited to the eligible participant. Effective January 1, 2019, the monthly benefit paid to retirees receiving benefits under the DART Plan as of December 31, 2018 was increased by 2%, and the

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

multiplier for employees who retire after December 31, 2018 was increased to a monthly benefit per year of service of \$72.50, up from \$70.50. Effective January 1, 2020, the monthly benefit paid to retirees receiving benefits under the Plan as of December 31, 2019 was increased by 2%, and the multiplier for employees who retire after December 31, 2019 was increased to a monthly benefit per year of service of \$74.00, up from \$72.50. Upon the death of a retiree or active participant, a lump-sum payment will be made comprised of the aggregate of the participant's contributions that exceed the aggregate of the payments that have been made to the participant.

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.

(3) Funding Policy

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

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

The contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2020 were \$1,343,265 and \$1,399,890, respectively. The employer contributions recognized by the DTC Plan and the DART Plan during the Fiscal Year Ended June 30, 2019 were \$1,255,065 and \$1,213,140, respectively.

(4) Net Pension Liability

The DTC Plan's net pension liability for the Fiscal Years Ended June 30, 2020 and 2019 was determined by actuarial valuations as of July 1, 2019 and 2017, respectively. Update procedures were used to roll forward the valuation results to the respective measurement dates. There have been no changes between the measurement date of the net pension liability and the report date that are expected to have a significant effect on the net pension liability.

The total pension liability used to calculate the net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurements for the Fiscal Years Ended June 30,:

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Investment rate of return	7.0%, net of plan investment expense, including inflation	7.0%, net of plan investment expense, including inflation
Salary increases	2.5%, including inflation	2.5%, including inflation
Inflation	2.0%	2.0%
Mortality	RP-2014 Mortality with generational projection using scale MP-2017	RP-2014 Mortality with generational projection using scale MP-2017

The long-term expected rate of return on DTC Plan 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 for the Fiscal Year Ended June 30, 2020:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	6.2 %	42.0 %
International equity	6.3	16.0
Emerging equity	6.9	7.0
Core fixed income	2.5	17.5
Intermediate IG Corp	3.6	8.7
High yield	4.3	4.4
Emerging debt	4.5	4.4

These return expectations are weighted based on the following asset/target amounts for the Fiscal Year Ended June 30, 2019:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	5.0 %	42.0 %
International equity	4.9	16.0
Emerging equity	5.0	7.0
Core fixed income	2.6	17.5
Intermediate IG Corp	3.6	8.7
High yield	4.1	4.4
Emerging debt	4.2	4.4

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The DART Plan's net pension liability for the calendar years ended December 31, 2019 and 2018 was determined by an actuarial experience study as of January 1, 2019. There have been no changes between the measurement date of the net pension liability and the report date that are expected to have a significant effect on the net pension liability. The total pension liability used to calculate the net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurements for the Fiscal Years Ended June 30,:

	<u>2020</u>	<u>2019</u>
Investment rate of return	7.0%, including inflation	7.0%, including inflation
Salary increases	2.5%, including inflation	2.5%, including inflation
Inflation	2.5%	2.5%
Mortality	Sex distinct RP-2014 Blue Collar table, fully generational with scale MP-2018	Sex distinct RP-2014 Blue Collar table, fully generational with scale MP-2018

The long-term expected rate of return on DART Plan 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 for the Fiscal Years Ended June 30, 2020:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	7.00 %	39.00 %
International equity	7.00	21.00
Fixed income	5.00	39.00
Cash equivalents	3.00	1.00

These return expectations were weighted based on the following asset/target amounts for the Fiscal Year Ended June 30, 2019:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	8.00 %	39.00 %
International equity	8.00	21.00
Fixed income	4.00	39.00
Cash equivalents	3.00	1.00

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(5) *Discount Rate*

The discount rate used to measure the total pension liability was 7.0% for both the DTC Plan and the DART Plan for all measurement periods. 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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(6) Changes in the Net Pension Liability

Changes in DTC's net pension liability for the Fiscal Year Ended June 30, 2020 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 7/1/18 (DTC Plan) and 1/1/19 (DART Plan)	\$ 30,228,648	\$ 28,133,804	\$ 2,094,844	\$ 58,834,916	\$ 47,718,449	\$ 11,116,467	\$ 89,063,564	\$ 75,852,253	\$ 13,211,311
Changes for the year									
Service cost	1,288,592	-	1,288,592	2,080,651	-	2,080,651	3,369,243	-	3,369,243
Interest	2,077,398	-	2,077,398	4,167,977	-	4,167,977	6,245,375	-	6,245,375
Changes of benefit terms	208,879	-	208,879	1,160,065	-	1,160,065	1,368,944	-	1,368,944
Differences between expected and actual experience	(1,094,998)	-	(1,094,998)	(136,567)	-	(136,567)	(1,231,565)	-	(1,231,565)
Changes in assumptions	1,154,455	-	1,154,455	-	-	-	1,154,455	-	1,154,455
Contributions - employer	-	1,343,265	(1,343,265)	-	1,399,890	(1,399,890)	-	2,743,155	(2,743,155)
Contributions - member	-	186,239	(186,239)	-	1,584,446	(1,584,446)	-	1,770,685	(1,770,685)
Net investment income	-	1,804,607	(1,804,607)	-	9,507,003	(9,507,003)	-	11,311,610	(11,311,610)
Benefit payments, including refunds of member contributions	(1,103,052)	(1,103,052)	-	(2,793,310)	(2,793,310)	-	(3,896,362)	(3,896,362)	-
Administrative expenses	-	(149,129)	149,129	-	(108,948)	108,948	-	(258,077)	258,077
Net changes	2,531,274	2,081,930	449,344	4,478,816	9,589,081	(5,110,265)	7,010,090	11,671,011	(4,660,921)
Balances at 6/30/19 (DTC Plan) and 12/31/19 (DART Plan)	\$ 32,759,922	\$ 30,215,734	\$ 2,544,188	\$ 63,313,732	\$ 57,307,530	\$ 6,006,202	\$ 96,073,654	\$ 87,523,264	\$ 8,550,390

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Changes in DTC's net pension liability for the Fiscal Year Ended June 30, 2019 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 7/1/17 (DTC Plan) and 1/1/18 (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
Changes for the year									
Service cost	1,137,417	-	1,137,417	2,194,365	-	2,194,365	3,331,782	-	3,331,782
Interest	1,919,848	-	1,919,848	3,680,761	-	3,680,761	5,600,609	-	5,600,609
Changes of benefit terms	-	-	-	1,238,609	-	1,238,609	1,238,609	-	1,238,609
Differences between expected and actual experience	(293,859)	-	(293,859)	(647,158)	-	(647,158)	(941,017)	-	(941,017)
Changes of assumptions	488,560	-	488,560	3,340,244	-	3,340,244	3,828,804	-	3,828,804
Contributions - employer	-	1,255,065	(1,255,065)	-	1,213,140	(1,213,140)	-	2,468,205	(2,468,205)
Contributions - member	-	144,642	(144,642)	-	1,499,056	(1,499,056)	-	1,643,698	(1,643,698)
Net investment income	-	2,261,406	(2,261,406)	-	(2,785,579)	2,785,579	-	(524,173)	524,173
Benefit payments, including refunds of member contributions	(899,450)	(899,450)	-	(2,674,443)	(2,674,443)	-	(3,573,893)	(3,573,893)	-
Administrative expenses	-	(133,656)	133,656	-	(90,644)	90,644	-	(224,300)	224,300
Other	-	3,014	(3,014)	-	-	-	-	3,014	(3,014)
Net changes	<u>2,352,516</u>	<u>2,631,021</u>	<u>(278,505)</u>	<u>7,132,378</u>	<u>(2,838,470)</u>	<u>9,970,848</u>	<u>9,484,894</u>	<u>(207,449)</u>	<u>9,692,343</u>
Balances at 6/30/18 (DTC Plan) and 12/31/18 (DART Plan)	<u>\$ 30,228,648</u>	<u>\$ 28,133,804</u>	<u>\$ 2,094,844</u>	<u>\$ 58,834,916</u>	<u>\$ 47,718,449</u>	<u>\$ 11,116,467</u>	<u>\$ 89,063,564</u>	<u>\$ 75,852,253</u>	<u>\$ 13,211,311</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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

The sensitivity of the net pension liability to changes in the DTC Plan's discount rate as of June 30, 2019, and the DART Plan's discount rate as of December 31, 2019 were as follows:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
DTC Plan (7.0%)	\$ 6,671,353	\$ 2,544,188	\$ (911,446)
DART Plan (7.0%)	\$ 13,853,667	\$ 6,006,202	\$ (593,353)

The sensitivity of the net pension liability to changes in the DTC Plan's discount rate as of June 30, 2018, and the DART Plan's discount rate as of December 31, 2018 were as follows:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
DTC Plan (7.0%)	\$ 5,850,184	\$ 2,094,844	\$ (1,052,920)
DART Plan (7.0%)	\$ 18,472,311	\$ 11,116,467	\$ 4,939,148

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

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

	<u>2020</u>	<u>2019</u>
Service cost	\$ 1,288,592	\$ 1,137,417
Interest	2,077,398	1,919,848
Changes of benefit terms	208,879	-
Member contributions	(186,239)	(144,642)
Differences between expected and actual experience	(321,335)	(184,460)
Changes in assumptions	396,620	252,313
Administrative expenses	149,129	133,656
Projected investment earnings on plan investments	(1,979,071)	(1,798,131)
Amortization of investment return differences	212,793	(37,882)
Other changes in fiduciary net position	<u>-</u>	<u>(3,014)</u>
Pension expense	<u>\$ 1,846,766</u>	<u>\$ 1,275,105</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>
Service cost	\$ 2,080,651	\$ 2,194,365
Interest	4,167,977	3,680,761
Member contributions	(1,584,446)	(1,499,056)
Benefit changes	1,160,065	1,238,609
Differences between expected and actual experience	(160,704)	(141,194)
Changes in assumptions	477,178	477,178
Administrative expenses	108,948	90,644
Projected investment earnings on Plan investments	(3,343,116)	(3,537,164)
Amortization of investment return differences	<u>116,609</u>	<u>1,349,387</u>
Pension expense	<u>\$ 3,023,162</u>	<u>\$ 3,853,530</u>

For the Fiscal Years Ended June 30, 2020 and 2019, DTC recognized pension expense of \$4,869,928 and \$5,128,635, respectively.

Contributions Made Subsequent to the Measurement Period - Contributions made subsequent to the measurement period (Fiscal Year 2020 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net pension liability in Fiscal Year 2021.

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

Changes in Assumptions - Changes in assumptions about future economic or demographic factors or other inputs are 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 - Differences 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% are 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.

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020:

	<u>DTC Plan</u>		<u>DART Plan</u>		<u>Totals</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,756,334	\$ -	\$ 836,467	\$ -	\$ 2,592,801
Changes in assumptions	2,332,783	-	2,385,888	-	4,718,671	-
Net differences between projected and actual investment earnings on pension plan investments	-	260,291	-	2,532,818	-	2,793,109
Employer contributions subsequent to the measurement date	<u>1,492,990</u>	<u>-</u>	<u>1,464,729</u>	<u>-</u>	<u>2,957,719</u>	<u>-</u>
Totals	<u>\$ 3,825,773</u>	<u>\$ 2,016,625</u>	<u>\$ 3,850,617</u>	<u>\$ 3,369,285</u>	<u>\$ 7,676,390</u>	<u>\$ 5,385,910</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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, 2019:

	DTC Plan		DART Plan		Totals	
	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	\$ -	\$ 982,671	\$ -	\$ 860,604	\$ -	\$ 1,843,275
Changes in assumptions	1,574,948	-	2,863,066	-	4,438,014	-
Net differences between projected and actual investment earnings on pension plan investments	-	221,962	3,747,678	-	3,747,678	221,962
Employer contributions subsequent to the measurement date	<u>1,457,272</u>	<u>-</u>	<u>909,948</u>	<u>-</u>	<u>2,367,220</u>	<u>-</u>
Totals	<u>\$ 3,032,220</u>	<u>\$ 1,204,633</u>	<u>\$ 7,520,692</u>	<u>\$ 860,604</u>	<u>\$ 10,552,912</u>	<u>\$ 2,065,237</u>

As of June 30, 2020, DTC reported \$2,957,719 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, 2021. 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
2021	\$ 81,896	\$ (313,661)	\$ (231,765)
2022	(168,747)	(385,200)	(553,947)
2023	17,523	348,244	365,767
2024	147,273	(916,305)	(769,032)
2025	199,013	316,468	515,481
Thereafter	39,200	(32,943)	6,257

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(9) Payable to the Plans

At June 30, 2020, DTC reported payables of \$10,644 for the outstanding amount of contributions due to the DTC Plan. At June 30, 2019, DTC reported no outstanding amounts for contributions due to the DTC Plan.

At June 30, 2020, DTC reported payables of \$137,127 for the outstanding amount of contributions due to the DART Plan. At June 30, 2019, DTC reported no outstanding amount for contributions due to the DART Plan.

C. Total Pension Expense

For the Fiscal Years Ended June 30, 2020 and 2019, the Department's total pension expense for all defined benefit pension plans that the Department participates in amounted to \$20,643,075 and \$14,388,765, respectively.

(14) Other Post-Employment Benefits (OPEB)

A. State Employees' OPEB Plan

On July 1, 2007, the Delaware OPEB Fund Trust (the Plan) was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. With the exception of DTC employees (see Note 14B); the Department's full-time employees are covered under the Plan, a cost-sharing, multiple-employer, defined benefit plan, which is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State.

Detailed information concerning the Plan is presented in its publicly available annual basic financial statements, which are available online at <https://open.omb.delaware.gov/Financials.shtml>.

(1) Plan Description and Eligibility

Substantially all State employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee.

Eligibility

State Employees:

Early Retirement: Age 55 with 15 years of service or any age with 25 years of service.
Normal Retirement (hired before January 1, 2012):

Non-General Assembly: Age 62 with five years of service, age 60 with 15 years of service, or any age with 30 years of service.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

General Assembly: Age 60 with five years of service, or age 55 with 10 years of service.

Normal Retirement (hired on or after January 1, 2012): Age 65 with 10 years of service, age 60 with 20 years of service, or any age with 30 years of service.

Judges:

Normal Retirement (before July 1, 1980): Age 65 with 12 years of service, any age with 24 years of service, or involuntarily retired after 22 years of service as a judge.

Normal Retirement (after June 30, 1980): Age 62 with 12 years of service, any age with 24 years of service, or involuntarily retired after 22 years of service as a judge.

Closed State Police:

Normal Retirement: Age 55 or 20 years of service.

Open State Police:

Normal Retirement: Employed at age 55 with 10 years of service, any age with 20 years of service, or 10 years of service when age plus service equals 75.

Benefits

During the Fiscal Years Ended June 30, 2020 and 2019, the State provided health insurance options through several providers, and the Plan pays premiums ranging from 50% to 100%, depending on a retiree's years of service and hire date.

Spouse and Survivor Coverage

Spouse and survivor coverage is available under any of the plan options with similar retiree contributions. Surviving spouses are eligible for coverage after the retiree's death.

Retiree Contributions

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 and before January 1, 2007 (except disability pension), contributions depend on years of service, as follows:

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Years of Service	Percent of Premium Paid by State
Less than 10	0 %
10 - 14	50
15 - 19	75
20 or more	100

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

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

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

Employer Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percentage of covered payroll, with an additional amount to pre-fund benefits, which is not actuarially determined. The Department's contributions to the Plan for Fiscal Years 2020 and 2019 were \$9,539,114 and \$8,714,836, respectively.

(2) Allocation Percentage Methodology

In accordance with GASB No. 75, the State prepared a Schedule of OPEB Amounts by Participating Employer, which calculates the employer's proportionate share of the Plan's collective net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. Management has elected to allocate the employer's proportionate shares of the collective OPEB amounts based on the percentage of actual employer contributions. The Department's proportionate share of the collective OPEB amounts was 3.4676% and 3.4401% at June 30, 2019 and 2018, respectively, which represents an increase of 0.0275% and a decrease of 0.0028% from the Department's proportionate share as of June 30, 2018 and 2017, respectively.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(3) Net OPEB Liability

For the Fiscal Years Ended June 30, 2020 and 2019, the Department reported a net OPEB liability in the amount of \$276,347,175 and \$282,436,856, respectively, for its proportionate share of the Plan's collective net OPEB liability. The total collective OPEB liability for the June 30, 2019 and 2018 measurement date was determined by actuarial valuations as of June 30, 2018 and 2017, respectively, and update procedures were used to roll forward the valuation results. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the OPEB Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial valuations and related update procedures used the following actuarial assumptions for the measurement dates as of June 30,:

	<u>2019</u>	<u>2018</u>
Investment rate of return, net of OPEB Plan investment expenses including inflation	3.75%	3.75%
Discount rate	3.50%	3.87%
Projected salary increases, including inflation	3.25% + Merit	3.25% + Merit
Healthcare cost trend rate	6.60%	6.80%
Ultimate rate of medical inflation	4.00%	4.00%

These assumptions are based on an experience study conducted in 2016. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality assumptions are based on the sex-distinct RP-2014 Total Dataset Employee Mortality table, including adjustments for healthy annuitant and disabled annuitant factors. Future mortality improvements are reflected by applying a custom projection scale on a generational basis to adjusted base tables from the base year.

For employees who currently have medical coverage, 95% of employees are assumed to elect coverage at retirement if they have 20 or more years of service and 80% if they have less than 20 years of service. These employees are assumed to remain in their current plan. For employees who do not currently have medical coverage, 50% of employees are assumed to elect medical coverage in the comprehensive plan prior to retirement, and then will follow the election percentages above. 40% of current and future terminated vested employees are assumed to elect coverage. 100% of LTD participants are assumed to elect coverage. 50% of employees are assumed to elect spousal coverage at retirement.

Long-Term Expected Rate of Return - The long-term expected rate of return on Plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized in the following table for the June 30, 2019 measurement date:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation Percentage</u>
Domestic equity	5.70 %	34.0 %
International equity	5.70	12.5
Fixed income	2.00	25.3
Alternative investments	7.80	22.6
Cash and cash equivalents	-	5.6

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized in the following table for the June 30, 2018 measurement date:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation Percentage</u>
Domestic equity	5.70 %	38.7 %
International equity	5.70	19.0
Fixed income	2.00	39.3
Cash and cash equivalents	-	3.0

Discount Rate - The discount rate used to measure the total collective OPEB liability was 3.50% and 3.87% at the June 30, 2019 and 2018 measurement dates, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index, an index satisfying the GASB requirement of an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that employer contributions to the Plan will continue to follow the pay-as-you-go contribution policy.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the Plan's net collective OPEB liability, calculated using the discount rate at each measurement date, as well as what the Department's proportionate share of the net collective OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or higher than the current rate (expressed in thousands):

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

<u>Valuation Date</u>	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
June 30, 2019 (3.50%)	\$ 327,682	\$ 276,351	\$ 235,625
June 30, 2018 (3.87%)	\$ 336,093	\$ 282,437	\$ 240,248

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Department's proportionate share of the Plan's net collective OPEB liability, calculated using the healthcare cost trend rate at each measurement date, as well as what the Department's proportionate share of the net collective OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or higher than the current rate (expressed in thousands):

<u>Valuation Date</u>	<u>1% Decrease</u>	<u>Healthcare Trend Rate</u>	<u>1% Increase</u>
June 30, 2019 (6.60%)	\$ 236,160	\$ 276,351	\$ 324,330
June 30, 2018 (6.80%)	\$ 240,479	\$ 282,437	\$ 333,533

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

For the Fiscal Years Ended June 30, 2020 and 2019, the Department recognized \$8,651,162 and \$11,347,909 in OPEB expense, respectively, which represents its proportionate share of the Plan's collective OPEB expense.

Contributions Made Subsequent to the Measurement Period - Contributions made subsequent to the measurement period of June 30, 2019 (Fiscal Year 2020 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net OPEB liability in Fiscal Year 2021.

Expected and Actual Experience Differences - Differences between expected and actual experience with regard to economic and demographic factors are 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.

Changes in Assumptions - Changes in assumptions about future economic or demographic factors or other inputs are 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 OPEB expense, with the remaining years recognized as either a deferred outflow or deferred inflow of resources.

Changes in Employer Proportionate Share - Changes in employer proportionate share are the amounts of the differences between the employer proportionate share of the net OPEB liability in the prior year compared to the current year. Changes in proportion

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

are 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 OPEB expense, with the remaining years recognized as a deferred inflow or outflow of resources.

Differences Between Projected and Actual Investment Earnings on OPEB Plan Investments - Differences between the actual earnings on Plan investments compared to the Plan's expected rate of return of 3.75% are 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 a deferred inflow of resources.

The following presents the deferred outflows of resources and deferred inflows of resources related to the Plan as of June 30, 2020:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on OPEB Plan investments	\$ -	\$ 250,274
Changes in employer proportionate share of net OPEB liability	2,137,806	579,152
Changes in assumptions	13,453,885	29,606,550
Expected and actual experience differences	-	31,022,323
Employer contributions subsequent to the measurement date	<u>9,539,114</u>	<u>-</u>
Totals	<u>\$ 25,130,805</u>	<u>\$ 61,458,299</u>

The following presents the deferred outflows of resources and deferred inflows of resources related to the Plan as of June 30, 2019:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on OPEB Plan investments	\$ -	\$ 709,635
Changes in employer proportionate share of net OPEB liability	-	757,969
Changes in assumptions	-	38,372,999
Employer contributions subsequent to the measurement date	<u>8,714,836</u>	<u>-</u>
Totals	<u>\$ 8,714,836</u>	<u>\$ 39,840,603</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

At June 30, 2020, the Department reported \$9,539,114 as deferred outflows of resources related to the Plan resulting from Department contributions subsequent to the measurement date of June 30, 2019 (Fiscal Year 2020 contributions), which will be recognized as a reduction of the net OPEB liability for the Fiscal Year Ending June 30, 2021. Other amounts reported related to the Department's proportionate share of the deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense during the Fiscal Years Ending June 30,:

2021	\$ (12,464,792)
2022	(12,464,792)
2023	(12,324,095)
2024	(5,479,716)
2025	(3,133,213)

B. DTC OPEB Plan

(1) Plan Description

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

The DTC OPEB Trust is a single-employer, defined benefit plan. The DTC OPEB Trust provides retirement medical 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 DTC OPEB Trust. DTC assumes no contractual obligations to continue contributions to the DTC 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 DTC OPEB Trust shall not give rise to any liability to DTC. It is the expectation of DTC to continue the DTC OPEB Trust indefinitely.

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

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

	2019	2018
Retirees and beneficiaries receiving benefits		
Pre-65	74	73
Post-65	287	270
Total retirees and beneficiaries receiving benefits	361	343
Total active plan members	878	875
Total	1,239	1,218

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. The plan provisions are as follows:

Eligibility

Contract Employees:

For employees hired before January 1, 2016 - Age 65 with five years of service or after 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 Years Ended June 30, 2020 and 2019, 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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Retiree Contributions

The only required contributions by retirees are their respective portion of current year premiums as described in Note 14(B)(3). DTC retains the authority to amend the requirements for retiree contributions at any time.

(2) Funding Policy and Employer Contributions

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding provided on an ad-hoc basis. Contributions to the DTC 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 DTC OPEB Trust for the payment of retiree healthcare and life insurance claims and investment expenses. Employer contributions for healthcare are recorded in the DTC 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 DTC OPEB Trust. The cash basis costs associated with these benefits were \$2,702,958 and \$2,516,148 for the Fiscal Years Ended June 30, 2020 and 2019, respectively.

(3) Employer Subsidy

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

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

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

DTC subsidizes 50% of medical premiums based on published rates after 10 years of service 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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The premium payments for post-employment benefits paid by retirees were \$103,360 and \$85,385 for the Fiscal Years Ended June 30, 2020 and 2019, respectively.

(4) Net OPEB Liability

The net OPEB liability was measured as of June 30, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of June 30, 2019. Actuarial valuations are performed every two years and roll forward or rollback procedures are performed between the actuarial valuation date and measurement date.

The total OPEB liability used to calculate the net OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurements for the Fiscal Years Ended June 30,:

	2020	2019
Inflation	2.4%	2.4%
Salary increases	2.5%, including inflation	2.5%, including inflation
Investment rate of return	3.1%, based on the government bond index rate of as June 30, 2019	3.6%, based on the government bond index rate of as June 30, 2018

The healthcare cost trend rate was 5.7% as of June 30, 2019 and 2018, based on the Society of Actuaries Long-Run Medical Cost Trend Model. Sample trends are as follows:

	Post-Medicare	Pre-Medicare
2021	5.1%	5.1%
2026	5.0%	5.5%
2031	5.0%	5.8%
2055	4.7%	5.1%

Mortality rates were based on: RP 2014 Generational Blue Collar Headcount Weighted Mortality Tables for Contract members; RP 2014 Generational White Collar Headcount Weighted Mortality Tables for Non-Contract members; RP 2014 Generational Disabled Annuitant Headcount Weighted Mortality Tables for Disabled members. All tables were projected using Scale MP-2018 and base year 2006.

There have been no significant changes to assumptions between the measurement date and the report date that are expected to have a significant effect on the net OPEB liability.

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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(5) Discount Rate

The discount rate used to measure the total OPEB liability was 3.13% and 3.62%, based on the 20-year general obligation bond index as of June 30, 2019 and 2018, respectively.

(6) Changes in the Net OPEB Liability

Changes in DTC's net OPEB liability for the Fiscal Year Ended June 30, 2020 were as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances as of July 1, 2018	\$ 155,632,012	\$ 4,324,615	\$ 151,307,397
Changes for the year			
Service cost	10,497,112	-	10,497,112
Interest	5,571,052	-	5,571,052
Differences between expected and actual experience	(954,956)	-	(954,956)
Changes in assumptions	15,477,648	-	15,477,648
Contributions - employer	-	2,516,148	(2,516,148)
Net investment income	-	261,410	(261,410)
Benefit payments, including refunds of member contributions	<u>(2,516,148)</u>	<u>(2,516,148)</u>	<u>-</u>
Net changes	<u>28,074,708</u>	<u>261,410</u>	<u>27,813,298</u>
Balances at June 30, 2019	<u>\$ 183,706,720</u>	<u>\$ 4,586,025</u>	<u>\$ 179,120,695</u>

Changes in DTC's net OPEB liability for the Fiscal Year Ended June 30, 2019 were as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances as of July 1, 2017	\$ 163,346,444	\$ 3,735,643	\$ 159,610,801
Changes for the year			
Service cost	11,453,625	-	11,453,625
Interest	5,786,270	-	5,786,270
Differences between expected and actual experience	(23,811,648)	-	(23,811,648)
Changes in assumptions	1,136,832	-	1,136,832
Contributions - employer	-	2,279,511	(2,279,511)
Net investment loss	-	588,972	(588,972)
Benefit payments, including refunds of member contributions	<u>(2,279,511)</u>	<u>(2,279,511)</u>	<u>-</u>
Net changes	<u>(7,714,432)</u>	<u>588,972</u>	<u>(8,303,404)</u>
Balances at June 30, 2018	<u>\$ 155,632,012</u>	<u>\$ 4,324,615</u>	<u>\$ 151,307,397</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(7) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rate

The sensitivity of the net OPEB liability to changes in the DTC OPEB Trust's discount rate as of June 30, 2019 was as follows:

	1% Decrease (2.1%)	Current Discount Rate (3.1%)	1% Increase (4.1%)
Net OPEB liability	\$ 216,972,879	\$ 179,120,695	\$ 149,818,707

The sensitivity of the net OPEB liability to changes in the DTC OPEB Trust's discount rate as of June 30, 2018 was as follows:

	1% Decrease (2.6%)	Current Discount Rate (3.6%)	1% Increase (4.6%)
Net OPEB liability	\$ 182,057,597	\$ 151,307,397	\$ 127,319,554

The sensitivity of the net OPEB liability to changes in the DTC OPEB Trust's healthcare cost trend rate as of June 30, 2019 was as follows:

	1% Decrease (4.7%)	Current Healthcare Trend Rate (5.7%)	1% Increase (6.7%)
Net OPEB liability	\$ 146,913,896	\$ 179,120,695	\$ 221,835,442

The sensitivity of the net OPEB liability to changes in the DTC OPEB Trust's healthcare cost trend rate as of June 30, 2018 was as follows:

	1% Decrease (4.7%)	Current Healthcare Trend Rate (5.7%)	1% Increase (6.7%)
Net OPEB liability	\$ 126,107,462	\$ 151,307,397	\$ 184,285,680

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

(8) OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

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

	<u>2020</u>	<u>2019</u>
Service cost	\$ 10,497,112	\$ 11,453,625
Interest	5,571,052	5,786,270
Projected earnings on DTC OPEB Trust	(302,723)	(261,495)
Current period amortization of deferred outflows associated with differences between projected and actual earnings	(53,253)	(61,516)
Current period amortization of deferred inflows associated with differences between projected and actual experience	(2,888,383)	(2,782,277)
Current period amortization of deferred inflows associated with changes in assumptions	<u>(290,636)</u>	<u>(2,010,375)</u>
DTC OPEB expense	<u>\$ 12,533,169</u>	<u>\$ 12,124,232</u>

Contributions Made Subsequent to the Measurement Period - Contributions made subsequent to the measurement date of June 30, 2019 (Fiscal Year 2020 contributions) are included as deferred outflows of resources and will be recognized as a reduction to the net OPEB liability in Fiscal Year 2021.

Expected and Actual Experience Differences - Differences between expected and actual experience with regard to economic and demographic factors are 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.

Changes in Assumptions - Changes in assumptions about future economic or demographic factors or other inputs are 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 DTC OPEB Trust Investments - Differences between the actual earnings on OPEB investments compared to the expected rate of return of 3.1% are 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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The following presents the deferred outflows of resources and deferred inflows of resources related to the DTC OPEB Trust as of June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 20,324,784
Changes in assumptions	14,642,111	14,956,826
Net differences between projected and actual investment earnings on DTC OPEB Trust investments	-	155,479
Employer contributions subsequent to the measurement date	<u>2,702,958</u>	<u>-</u>
Totals	<u>\$ 17,345,069</u>	<u>\$ 35,437,089</u>

The following presents the deferred outflows of resources and deferred inflows of resources related to the DTC OPEB Trust as of June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 22,258,211
Changes in assumptions	1,010,517	17,093,516
Net differences between projected and actual investment earnings on DTC OPEB Trust investments	-	250,045
Employer contributions subsequent to the measurement date	<u>2,516,148</u>	<u>-</u>
Totals	<u>\$ 3,526,665</u>	<u>\$ 39,601,772</u>

At June 30, 2020, DTC reported \$2,702,958 as deferred outflows of resources related to the DTC OPEB Trust 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, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to DTC OPEB will be recognized in OPEB expense during the Fiscal Years Ending June 30,:

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

2021	\$ (3,232,272)
2022	(3,232,272)
2023	(3,236,253)
2024	(3,170,758)
2025	(3,179,019)
Thereafter	(4,744,404)

(9) Payable to the DTC OPEB Trust

At June 30, 2020 and 2019, there were no outstanding amounts for contributions due to the DTC OPEB Trust.

(10) Additional Information for the DTC OPEB Trust

The following additional information is being provided related to the DTC OPEB Trust as of and for the Fiscal Year Ended June 30, 2019, the measurement date of the DTC OPEB liability, since separate plan financial statements are not publicly available.

Schedule of Fiduciary Net Position - DTC OPEB Trust
June 30, 2019

Assets	
Cash and cash equivalents	\$ 54,080
Investments, at fair value	
Fixed income	1,559,355
Domestic equities	1,938,531
International equities	<u>1,034,059</u>
Total investments, at fair value	<u>4,531,945</u>
Total assets	<u>\$ 4,586,025</u>
Net position restricted for other post-employment benefits	<u>\$ 4,586,025</u>

Schedule of Plan Investment Net Income - DTC OPEB Trust
For the Fiscal Year Ended June 30, 2019

Additions	
Investment income	
Net realized and unrealized gain	\$ 162,983
Interest and dividends	<u>109,906</u>
	272,889
Less: investment expenses	<u>11,479</u>
Net investment income	<u>\$ 261,410</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The following additional information is being provided related to the DTC OPEB Trust as of and for the Fiscal Year Ended June 30, 2018, the measurement date of the DTC OPEB liability, since separate plan financial statements are not publicly available.

Schedule of Fiduciary Net Position - DTC OPEB Trust
June 30, 2018

Assets	
Cash and cash equivalents	\$ 45,067
Investments, at fair value	
Fixed income	1,321,711
Domestic equities	1,921,666
International equities	<u>1,036,171</u>
	<u>4,279,548</u>
Total investments, at fair value	<u>4,279,548</u>
Total assets	<u>\$ 4,324,615</u>
Net position restricted for other post-employment benefits	<u>\$ 4,324,615</u>

Schedule of Plan Investment Net Income - DTC OPEB Trust
For the Fiscal Year Ended June 30, 2018

Additions	
Investment income	
Net realized and unrealized gain	\$ 520,338
Interest and dividends	<u>92,803</u>
	613,141
Less: investment expenses	<u>24,169</u>
Net investment income	<u>\$ 588,972</u>

Disclosures Specific to the DTC OPEB Trust

Cash and Cash Equivalents

The DTC 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.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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 DTC 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 DTC 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 DTC OPEB Trust.

Investments

Investment Policy

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

The DTC 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 DTC 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 DTC 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 DTC OPEB Trust's funds as of June 30, 2019 were as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	6.2 %	42.0 %
International equity	6.3	16.0
Emerging equity	6.9	7.0
Core fixed income	2.5	17.5
Intermediate IG Corp	3.6	8.7
High yield	4.3	4.4
Emerging debt	4.5	4.4

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Long-term expected real rate of return and asset allocation for the DTC OPEB Trust's funds as of June 30, 2018 were as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Allocation Percentage</u>
Domestic equity	5.0 %	42.0 %
International equity	4.9	16.0
Emerging equity	5.0	7.0
Core fixed income	2.6	17.5
Intermediate IG Corp	3.6	8.7
High yield	4.1	4.4
Emerging debt	4.2	4.4

The long-term expected rate of return on the DTC 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 DTC OPEB Trust in a manner consistent with the following fiduciary standards (a) all transactions undertaken must be for the sole interest of DTC 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 DTC OPEB Trust.
- To enhance the value of DTC 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 DTC OPEB Trust's actuarial discount rate.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Implementing and complying with these goals and guidelines are the responsibilities of the DTC 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 DTC OPEB Trust investments, net of investment expenses was 3.8% and 6.4% for the Fiscal Years Ended June 30, 2019 and 2018, respectively.

Fair Value of Investments

DTC measures and records its investments using fair value measurement guidelines that recognize a three-tiered fair value hierarchy, see Footnote 3(b). The fair values of the DTC OPEB Trust's investments based on quoted market prices are presented, by type, as follows:

<u>Investments by Type</u>	<u>Total</u>	<u>Fair Value Measurements at June 30, 2019</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities				
Fixed income mutual funds	\$ 1,559,355	\$ 1,559,355	\$ -	\$ -
Equity securities				
Domestic equity mutual funds	1,938,531	1,938,531	-	-
International equity mutual funds	<u>1,034,059</u>	<u>1,034,059</u>	<u>-</u>	<u>-</u>
Total investments measured at fair value	<u>\$ 4,531,945</u>	<u>\$ 4,531,945</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Investments by Type</u>	<u>Total</u>	<u>Fair Value Measurements at June 30, 2018</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities				
Fixed income mutual funds	\$ 1,321,711	\$ 1,321,711	\$ -	\$ -
Equity securities				
Domestic equity mutual funds	1,921,666	1,921,666	-	-
International equity mutual funds	<u>1,036,171</u>	<u>1,036,171</u>	<u>-</u>	<u>-</u>
Total investments measured at fair value	<u>\$ 4,279,548</u>	<u>\$ 4,279,548</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

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 DTC 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 DTC OPEB Trust, and are held by either the counterparty or the counterparty's trust department or agent but not in the DTC OPEB Trust's name. As of June 30, 2019 and 2018, the DTC OPEB Trust's investment securities were not exposed to custodial credit risk because all securities were held by the DTC OPEB Trust's custodian in the DTC 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 DTC 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 DTC OPEB Trust. The DTC OPEB Trust's investments in the Wilmington Trust US Government Money Market Fund had an Aaa rating at June 30, 2019 and 2018. The DTC OPEB Trust had no other direct investment in fixed income securities as of June 30, 2019 and 2018.

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 DTC OPEB Trust does not have a formal policy governing foreign currency risk, the DTC 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 DTC OPEB Trust. DTC pays all administrative expenses incurred by the DTC OPEB Trust.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

DTC OPEB Trust Termination

The DTC OPEB Trust Agreement shall be irrevocable unless and until DTC no longer has any liability for other post-employment benefits. Upon termination of the DTC 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.

C. Total OPEB Expense

For the Fiscal Years Ended June 30, 2020 and 2019, the Department's total OPEB expense recognized for all OPEB plans that the Department participates in amounted to \$21,184,331 and \$23,472,141, respectively.

(15) Commitments and Contingencies

(a) Construction Commitments

The Department had contractual commitments of \$637,440,704 and \$539,623,876 for construction of various highway projects at June 30, 2020 and 2019, respectively. Current and future appropriations will fund these commitments as work is performed.

(b) Litigation

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

(c) Pollution Remediation

GASB No. 49 provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB No. 49 does not require the Department to search for pollution, it does require the Department to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

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

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

- e. The Department commences, or legally obligates itself to conduct, remediation activities.

The Department becomes aware of pollution conditions in the fulfillment of its mission, and site investigation, planning and design, cleanup, and site monitoring are typical remediation activities of the Department. The Department has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. GASB No. 49 requires the Department to calculate pollution remediation liabilities using the expected cash flow technique. Where the Department cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the Department has not identified any of these situations.

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

At June 30, 2020 and 2019, the Department had outstanding pollution remediation liabilities of \$131,780 and \$13,750, respectively.

(16) Risk Management

The Department is exposed to various risks of loss related to workers' compensation, healthcare, automobile, and casualty claims. Except as noted below, the Department is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Department pays premiums to the General Fund for this coverage. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

(a) Workers' Compensation Insurance

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

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

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

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Subsequent to Fiscal Year 2003, DTC changed its coverage and was insured through Fiscal Year 2011 by the State. For Fiscal Years 2012 through 2014, DTC was insured through Liberty Mutual. In Fiscal Year 2015, DTC returned to being covered by the State. The premium for Fiscal Years 2020 and 2019 was calculated as \$1.55 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 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:

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

<u>Fiscal Year</u>	<u>Initial Loss Reserve Insurance Liability Established</u>	<u>Maximum Amount of Loss Under Self-Insured Retention Program (Per Occurrence)</u>	<u>Excess Commercial Coverage (Aggregate)</u>
2020	\$ 4,737,000	\$ 1,000,000	***
2019	4,435,000	1,000,000	***
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 the statements of net position were as follows at June 30,:

<u>Auto Loss Reserve Remaining for Fiscal Year</u>	<u>2020</u>	<u>2019</u>
2020	\$ 2,772,000	\$ -
2019	3,674,000	4,247,000
2018	1,347,000	2,615,000
2017	1,202,000	1,685,000
2016	250,000	434,000
2015	-	81,000
2000	4,000	4,000
	<u>\$ 9,249,000</u>	<u>\$ 9,066,000</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Changes in the balance of total claim liabilities during the Fiscal Years Ended June 30, 2020 and 2019 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance - July 1</u>	<u>Current Year Estimated Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>Ending Balance - June 30</u>
2020	\$ 9,066,000	\$ 4,772,781	\$ (4,589,781)	\$ 9,249,000
2019	\$ 9,179,000	\$ 4,457,260	\$ (4,570,260)	\$ 9,066,000

(17) Operating Leases

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through October 2, 2022. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were \$400,789 and \$191,286 for the Fiscal Years Ended June 30, 2020 and 2019, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2020 are as follows:

2021	\$ 797,605
2022	360,067
2023	<u>118,309</u>
	<u>\$1,275,981</u>

On September 2, 2016, DTC entered into an operating lease agreement for transit vehicle tires that covers a three-year period with the option to extend the contract up to two times for a period of up to one year. DTC has exercised the option to extend the contract. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the Fiscal Years Ended June 30, 2020 and 2019, DTC incurred expenses related to this lease of \$373,981 and \$469,715, respectively.

(18) Transfers in From and Out to Other Funds

According to the terms of the Trust Agreement, the Trust Fund is responsible for reimbursing the State for the Department's operating, maintenance, and capital expenses financed by the State's general bank account. However, the State's General Assembly and the State's Division of Revenue transferred the following amounts as general operating support from the State's General Fund to the Department at June 30,:

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

	2020	2019
Amounts transferred to the Trust Fund		
Division of Motor Vehicles	\$ 3,402,698	\$ 2,800,000
Division of Revenue, Motor Vehicle Dealer/ Lessor License and Document Fees	325,383	396,882
Build America Bond	577,759	1,823,775
E-ZPass Operations	5,000,000	5,000,000
Other	<u>5,347,533</u>	<u>(4,922,000)</u>
	<u>\$ 14,653,373</u>	<u>\$ 5,098,657</u>

In addition, the Trust Fund is responsible for maintaining funds appropriated by the General Assembly for DTC and reimbursing DTC for its operating and capital expenses up to the total amount of the appropriated funds. Total reimbursements for the Fiscal Years Ended June 30, 2020 and 2019 were \$122,163,268 and \$111,387,586, respectively.

(19) Service Concession Arrangement for Welcome Center and Service Plaza

At the end of Fiscal Year 2010, construction was completed on the Welcome Center and Service Plaza (the Center) pursuant to an agreement with HMS Host Tollroads, Inc. (HMS), under which HMS financed, designed, and built the Center and continues to maintain and operate the Center for 35 years. The agreement with HMS was entered into in order to improve the comfort of motorists traveling through Delaware and to avoid the issuance of debt. Under the agreement, HMS is responsible for maintaining the Center to current conditions and insuring the Center over the course of the 35-year operations period. The Trust Fund will be entitled to a percentage of all sales from fuel and non-fuel items sold. At the end of the arrangement, operation of the Center will be transferred to the Trust Fund in its enhanced condition. The Department initially reported the Center as a capital asset with a carrying amount of \$22,100,000 at June 30, 2014, and a related deferred inflow of resources of \$22,100,000, which is being amortized over 35 years. Amortization expense was \$631,429 for each of the Fiscal Years Ended June 30, 2020 and 2019.

(20) Blended Component Unit - Condensed Financial Information

The Authority is a blended component unit of the Department (see Note 1). The following tables present the condensed financial information of the Authority as of and for the Fiscal Years Ended June 30, 2020 and 2019:

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u>
Assets		
Current assets	\$ 326,066,732	\$ 328,591,204
Capital assets, net	2,034,207,497	1,985,539,796
Other assets	<u>22,654,985</u>	<u>31,502,364</u>
Total assets	2,382,929,214	2,345,633,364
Deferred outflows of resources	<u>46,523,695</u>	<u>39,469,527</u>
Liabilities		
Current liabilities	188,161,054	173,081,805
Noncurrent liabilities	<u>1,285,484,110</u>	<u>1,164,513,493</u>
Total liabilities	1,473,645,164	1,337,595,298
Deferred inflows of resources	<u>56,608,712</u>	<u>58,084,151</u>
Net position		
Net investment in capital assets	889,676,662	947,497,363
Restricted	152,528,095	180,879,433
Unrestricted deficit	<u>(143,005,724)</u>	<u>(138,953,354)</u>
Total net position	<u>\$ 899,199,033</u>	<u>\$ 989,423,442</u>

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

	<u>2020</u>	<u>2019</u>
Operating revenues		
Pledged	\$ 487,534,756	\$ 505,350,221
Other	<u>79,085,323</u>	<u>98,318,829</u>
Total operating revenues	566,620,079	603,669,050
Operating expenses	<u>551,587,010</u>	<u>490,851,026</u>
Operating income	15,033,069	112,818,024
Nonoperating revenues (expenses)		
Income from investments - pledged	5,909,992	5,524,248
Federal grant revenue	29,004,315	6,440,993
Interest expense	(34,863,880)	(33,218,751)
Other	<u>(9,325,763)</u>	<u>(4,595,258)</u>
Deficiency of nonoperating revenues over nonoperating expenses	<u>(9,275,336)</u>	<u>(25,848,768)</u>
Income before transfers	5,757,733	86,969,256
Net transfers	<u>(95,982,142)</u>	<u>(95,868,101)</u>
Change in net position	(90,224,409)	(8,898,845)
Net position - beginning of year	<u>989,423,442</u>	<u>998,322,287</u>
Net position - end of year	<u>\$ 899,199,033</u>	<u>\$ 989,423,442</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

Condensed Statements of Cash Flows

	<u>2020</u>	<u>2019</u>
Net cash provided by (used in)		
Operating activities	\$ 49,418,402	\$ 159,991,901
Noncapital financing activities	(116,448,409)	(110,427,335)
Capital and related financing activities	19,516,960	(152,710,359)
Investing activities	<u>83,265,767</u>	<u>108,536,811</u>
Net increase in cash and cash equivalents	35,752,720	5,391,018
Cash and cash equivalents - beginning of year	<u>72,923,831</u>	<u>67,532,813</u>
Cash and cash equivalents - end of year	<u>\$ 108,676,551</u>	<u>\$ 72,923,831</u>

(21) DTC Coronavirus Relief Fund

On June 23, 2020, DTC was awarded CARES Act funding to prevent, prepare for, and respond to the Coronavirus. DTC was awarded \$55,256,994 under CARES Act Section 5307-6, Urbanized Area Formula Grants. The grant is intended to support operating assistance with funding of \$50,654,441 and preventive maintenance funding of \$4,602,553 for the period of January 20, 2020 through June 30, 2021. As of June 30, 2020, the amount expended was \$18,719,686.

On May 21, 2020, DTC was awarded CARES Act funding to prevent, prepare for, and respond to the Coronavirus. DTC was awarded \$5,915,431 under CARES Act Section 5311-5, Rural Area Formula Grants. The grant is intended to support operating assistance with funding of \$4,979,549 and preventive maintenance funding of \$935,882 for the period of January 20, 2020 through September 30, 2021. As of June 30, 2020, the amount expended was \$4,021,123.

Grant reimbursement for \$22,740,809 expended for the Fiscal Year Ended June 30, 2020, was recorded to federal operating assistance in the statements of revenues, expenses, and changes in net position. As of June 30, 2020, this amount was recorded as a federal accounts receivable on the statements of net position.

(22) Reclassifications

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation.

(23) 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 December 21, 2020, which is the date the financial statements were available to be issued.

State of Delaware
Department of Transportation
Notes to Financial Statements
June 30, 2020 and 2019

The Coronavirus (COVID-19) has adversely affected and may continue to adversely affect activity globally, nationally, and locally. COVID-19 has had an adverse impact on the Department's costs and the demand for the Department's services.

It is unknown the extent to which COVID-19 may spread and continue to have a destabilizing effect on financial and economic activity. These conditions could further adversely affect the Department's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Department's operations or of the Department's customers and suppliers, which could significantly disrupt the Department's operations. The extent of the adverse impact of the COVID-19 outbreak on the Department cannot be predicted at this time.

In September 2020, the Department issued \$217.3 million in Transportation System Senior Revenue Bonds, Series 2020, maturing between July 1, 2023 and July 1, 2040. The bonds bear coupon rates between 4.00% and 5.00%. The bonds were issued at a premium of \$70.5 million, generating total proceeds of \$287.8 million. Approximately \$61.6 million will be used to refund existing bonds, with the remainder used to fund capital projects for the Department.

REQUIRED SUPPLEMENTARY INFORMATION

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

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

As allowed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense.

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

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges, and 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6 and 9. A rating of 5 is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 95% of its national bridge inventory at a fair or better condition level. Condition assessments of eligible infrastructure assets are performed at least every three years.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

Structural Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31,:					
		2020		2019		2018	
BCR Condition	Rating	Number	Percentage	Number	Percentage	Number	Percentage
Good	6 - 9	683	80.3	645	76.2	575	69.7
Fair	5	153	18.0	179	21.1	221	26.8
Poor	0 - 4	15	1.7	23	2.7	29	3.5
	Totals	<u>851</u>	<u>100.0</u>	<u>847</u>	<u>100.0</u>	<u>825</u>	<u>100.0</u>

Deck Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31,:					
		2020		2019		2018	
OPC Condition	Rating	Square Feet	Percentage	Square Feet	Percentage	Square Feet	Percentage
Good	6 - 9	5,794,649	69.2	5,332,466	64.1	4,518,306	57.3
Fair	5	2,478,327	29.6	2,624,005	31.6	2,977,442	37.8
Poor	0 - 4	99,749	1.2	358,949	4.3	390,210	4.9
	Totals	<u>8,372,725</u>	<u>100.0</u>	<u>8,315,420</u>	<u>100.0</u>	<u>7,885,958</u>	<u>100.0</u>

Center-Line Mile Numbers and Percentages for Road Pavement

		Calendar Year Ended December 31,:					
		2019		2017		2015	
OPC Condition	Rating	Center-Line Miles	Percentage	Center-Line Miles	Percentage	Center-Line Miles	Percentage
Good	3.0 - 5.0	3,359	76.5	3,623	81.3	3,960	88.9
Fair	2.5 - 3.0	531	12.1	407	9.2	310	7.0
Poor	Below 2.5	494	11.2	300	6.7	118	2.7
Unrated		10	0.2	125	2.8	64	1.4
	Totals	<u>4,394</u>	<u>100.0</u>	<u>4,455</u>	<u>100.0</u>	<u>4,452</u>	<u>100.0</u>

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

		Fiscal Year Ended June 30,:				
		2020	2019	2018	2017	2016
Estimated	\$	353,738	\$ 402,508	\$ 317,177	\$ 246,928	\$ 242,299
Actual		493,144	356,793	308,681	297,364	281,554

* The estimated expenditures represent annual Bond Bill authorization. The actual expenditures represent the current year spending, which includes cumulative authorization.

State of Delaware
Department of Transportation
 Required Supplementary Information
 June 30, 2020 and 2019

Required Supplementary Information - DeIDOT/Trust Fund Pension

Schedule of Proportionate Share of Net Pension Liability

<u>Proportionate Share of Net Pension Liability</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
DeIDOT/Trust Fund proportion of the net pension liability	3.5647 %	3.5295 %	3.5235 %	3.5621 %	3.6502 %	3.8332 %
DeIDOT/Trust Fund proportion of the net pension liability - dollar value	\$ 55,465,933	\$ 45,582,509	\$ 51,653,964	\$ 53,679,225	\$ 24,283,925	\$ 14,114,288
DeIDOT/Trust Fund covered payroll	\$ 81,227,711	\$ 76,802,503	\$ 75,469,182	\$ 72,908,127	\$ 73,603,519	\$ 74,801,858
DeIDOT/Trust Fund proportionate share of the net pension liability as a percentage of covered payroll	68.28 %	59.35 %	68.44 %	73.63 %	32.99 %	18.87 %
Plan fiduciary net position as a percentage of the total pension liability	85.4 %	87.5 %	85.4 %	84.1 %	92.7 %	95.8 %

Notes to Schedule

Benefit changes: None.

Changes to assumptions: None.

In accordance with GASB No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

Required Supplementary Information - DelDOT/Trust Fund Pension

Schedule of Contributions

Contributions	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contribution	\$ 9,118,264	\$ 8,743,943	\$ 7,301,989	\$ 6,575,636	\$ 6,508,251	\$ 6,508,133	\$ 6,702,782
Contributions in relation to the contractually required contribution	<u>9,118,264</u>	<u>8,743,943</u>	<u>7,301,989</u>	<u>6,575,636</u>	<u>6,508,251</u>	<u>6,508,133</u>	<u>6,702,782</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
DelDOT/Trust Fund covered payroll	\$ 83,814,082	\$ 81,227,711	\$ 76,802,503	\$ 75,469,182	\$ 72,908,127	\$ 73,603,519	\$ 74,801,858
Contribution as a percentage of covered payroll	10.88 %	10.76 %	9.51 %	8.71 %	8.93 %	8.84 %	8.96 %

Notes to Schedule

Valuation date: Actuarially determined contribution rates in the Schedule of Contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates for 2020:

Actuarial cost method	Entry age normal
Amortization method	Percentage of pay - open
Remaining amortization period	20 years
Asset valuation method	Smoothed market, 20% annual market weight
Inflation	2.5%
Investment rate of return	7.0%, including inflation
Salary increase	2.5% plus merit component based on service, including inflation
Cost-of-living adjustments	ad hoc

In accordance with GASB No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

Required Supplementary Information - DelDOT/Trust Fund OPEB

Schedule of Proportionate Share of Net OPEB Liability

<u>Proportionate Share of Net OPEB Liability</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
DelDOT/Trust Fund proportion of the net OPEB liability	3.4676 %	3.4401 %	3.4429 %
DelDOT/Trust Fund proportion of the net OPEB liability - dollar value	\$ 276,347,175	\$ 282,436,856	\$ 284,231,597
DelDOT/Trust Fund covered payroll	\$ 81,227,711	\$ 76,802,503	\$ 75,469,182
DelDOT/Trust Fund proportionate share of the net OPEB liability as a percentage of covered payroll	340.21 %	367.74 %	376.62 %
Plan fiduciary net position as a percentage of the total OPEB liability	4.89 %	4.44 %	4.13 %

Notes to Schedule

Benefit changes: None.

Changes in assumptions: The discount rate decreased from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.

The healthcare trend rate decreased from 6.80% as of June 30, 2018 to 6.60% as of June 30, 2019.

In accordance with GASB No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

Required Supplementary Information - DelDOT/Trust Fund OPEB

Schedule of Contributions

Contributions	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Contractually required contribution	\$ 9,539,114	\$ 8,714,836	\$ 7,727,304	\$ 8,167,249
Contributions in relation to the contractually required contribution	<u>9,539,114</u>	<u>8,714,836</u>	<u>7,727,304</u>	<u>8,167,249</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
DelDOT/Trust Fund covered payroll	\$ 83,814,082	\$ 81,227,711	\$ 76,802,503	\$ 75,469,182
Contribution as a percentage of covered payroll	11.38 %	10.73 %	10.06 %	10.82 %

Notes to Schedule

Contribution rates are established annually by the budgeting process of the State. As a result, there are no actuarially-determined contributions.

In accordance with GASB No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

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

	Last 10 Fiscal Years (Dollar amounts in thousands)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total pension liability										
Service cost	\$ 1,289	\$ 1,137	\$ 1,060	\$ 873	\$ 843	\$ 840				
Interest	2,077	1,920	1,691	1,724	1,612	1,483				
Changes of benefit terms	209	-	-	-	-	-				
Differences between expected and actual experience	(1,095)	(294)	(192)	(693)	(297)	-				
Changes in assumptions	1,154	489	1,530	-	-	-				
Benefit payments, including refunds of member contributions	<u>(1,103)</u>	<u>(899)</u>	<u>(753)</u>	<u>(705)</u>	<u>(629)</u>	<u>(569)</u>				
Net changes in total pension liability	2,531	2,353	3,336	1,199	1,529	1,754				
Total pension liability - beginning	<u>30,229</u>	<u>27,876</u>	<u>24,540</u>	<u>23,341</u>	<u>21,812</u>	<u>20,058</u>				
Total pension liability - ending (a)	<u>\$ 32,760</u>	<u>\$ 30,229</u>	<u>\$ 27,876</u>	<u>\$ 24,540</u>	<u>\$ 23,341</u>	<u>\$ 21,812</u>				
Plan fiduciary net position										
Contributions - employer	\$ 1,343	\$ 1,255	\$ 1,104	\$ 1,104	\$ 1,176	\$ 1,158				
Contributions - members	186	145	116	81	57	30				
Net investment income	1,805	2,261	2,529	405	554	2,443				
Benefit payments, including refunds of member contributions	(1,103)	(899)	(753)	(705)	(629)	(569)				
Administrative expenses	(149)	(134)	(161)	(166)	(94)	(116)				
Other	-	3	-	-	-	-				
Net changes in plan fiduciary net position	2,082	2,631	2,835	719	1,064	2,946				
Plan fiduciary net position - beginning	<u>28,134</u>	<u>25,503</u>	<u>22,668</u>	<u>21,949</u>	<u>20,885</u>	<u>17,939</u>				
Plan fiduciary net position - ending (b)	<u>\$ 30,216</u>	<u>\$ 28,134</u>	<u>\$ 25,503</u>	<u>\$ 22,668</u>	<u>\$ 21,949</u>	<u>\$ 20,885</u>				
Net pension liability - ending (a) - (b)	<u>\$ 2,544</u>	<u>\$ 2,095</u>	<u>\$ 2,373</u>	<u>\$ 1,872</u>	<u>\$ 1,392</u>	<u>\$ 927</u>				
Plan fiduciary net position as a percentage of total pension liability	92.23 %	93.07 %	91.49 %	92.37 %	94.04 %	95.75 %				
Covered payroll	\$ 15,099	\$ 14,985	\$ 14,161	\$ 13,142	\$ 12,261	\$ 12,099				
Net pension liability as a percentage of covered payroll	16.85 %	13.98 %	16.76 %	14.24 %	11.35 %	7.66 %				

Information for Fiscal Year 2013 and earlier is not available.

Notes to Schedule

Benefit changes: The plan was amended to add a survivorship pop-up benefit for participants who retire on or after January 1, 2018 and elect a joint and survivorship annuity.
Changes of assumptions: The Integration Amount growth assumption was changed from 2.5% to 0.0%. This was changed to reflect the ad hoc nature of future increases given by the Committee.

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

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

Last 10 Fiscal Years
(Dollar amounts in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total pension liability										
Service cost	\$ 2,081	\$ 2,193	\$ 2,098	\$ 2,048	\$ 1,976	\$ 1,766				
Interest	4,168	3,681	3,406	3,209	2,925	2,675				
Changes of benefit terms	1,160	1,239	1,042	197	1,473	1,030				
Differences between expected and actual experience	(137)	(647)	(121)	(217)	(112)	4				
Changes in assumptions	-	3,340	-	-	-	-				
Benefit payments, including refunds of member contributions	<u>(2,793)</u>	<u>(2,674)</u>	<u>(2,531)</u>	<u>(2,411)</u>	<u>(2,134)</u>	<u>(2,103)</u>				
Net changes in total pension liability	4,479	7,132	3,894	2,826	4,128	3,372				
Total pension liability - beginning	<u>58,835</u>	<u>51,703</u>	<u>47,809</u>	<u>44,983</u>	<u>40,855</u>	<u>37,483</u>				
Total pension liability - ending (a)	<u>\$ 63,314</u>	<u>\$ 58,835</u>	<u>\$ 51,703</u>	<u>\$ 47,809</u>	<u>\$ 44,983</u>	<u>\$ 40,855</u>				
Plan fiduciary net position										
Contributions - employer	\$ 1,400	\$ 1,213	\$ 1,048	\$ 1,080	\$ 1,253	\$ 909				
Contributions - members	1,584	1,499	1,344	1,360	1,388	1,263				
Net investment income	9,507	(2,786)	6,743	2,550	(869)	2,605				
Benefit payments, including refunds of member contributions	(2,793)	(2,674)	(2,531)	(2,411)	(2,134)	(2,103)				
Administrative expenses	<u>(109)</u>	<u>(91)</u>	<u>(106)</u>	<u>(94)</u>	<u>(100)</u>	<u>(133)</u>				
Net changes in plan fiduciary net position	9,589	(2,839)	6,498	2,485	(462)	2,541				
Plan fiduciary net position - beginning	<u>47,718</u>	<u>50,557</u>	<u>44,059</u>	<u>41,574</u>	<u>42,036</u>	<u>39,495</u>				
Plan fiduciary net position - ending (b)	<u>\$ 57,307</u>	<u>\$ 47,718</u>	<u>\$ 50,557</u>	<u>\$ 44,059</u>	<u>\$ 41,574</u>	<u>\$ 42,036</u>				
Net pension liability - ending (a) - (b)	<u>\$ 6,007</u>	<u>\$ 11,117</u>	<u>\$ 1,146</u>	<u>\$ 3,750</u>	<u>\$ 3,409</u>	<u>\$ (1,181)</u>				
Plan fiduciary net position as a percentage of total pension liability	90.51 %	81.10 %	97.78 %	92.16 %	92.42 %	102.89 %				
Covered payroll	\$ 32,277	\$ 31,684	\$ 27,383	\$ 27,472	\$ 28,203	\$ 25,748				
Net pension liability as a percentage of covered payroll	18.61 %	35.09 %	4.19 %	13.65 %	12.09 %	(4.59)%				

Information for Fiscal Year 2013 and earlier is not available.

Notes to Schedule

Benefit changes: Effective January 1, 2019, the multiplier for employees who retire after December 31, 2018, was increased to a monthly benefit per year of service of \$72.50.
Changes in assumptions: In Fiscal Year 2018, change in assumptions included; expected rates of future mortality changed to sex distinct RP-2014 blue collar mortality, fully generational, using scale MP-2018. The salary increases changed from 4.0% to 2.5% and inflation changed from 2.0% to 2.5%.

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

Schedule of Contributions - DTC and DART Plans

Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
DTC Plan, as of June 30,											
Actuarially determined contribution	\$ 1,493	\$ 1,343	\$ 1,255	\$ 980	\$ 1,104	\$ 1,176	\$ 1,156				
Contributions in relation to the actuarially determined contribution	<u>1,493</u>	<u>1,343</u>	<u>1,255</u>	<u>1,104</u>	<u>1,104</u>	<u>1,176</u>	<u>1,158</u>				
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (124)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2)</u>	Information for Fiscal Year 2013 and earlier is not available.			
Covered payroll	\$ 16,552	\$ 15,099	\$ 14,985	\$ 14,161	\$ 13,142	\$ 12,261	\$ 12,099				
Contributions as a percentage of covered payroll	9.02 %	8.89 %	8.38 %	7.80 %	8.40 %	9.59 %	9.57 %				
DART Plan, as of December 31,											
Actuarially determined contribution		\$ 1,465	\$ 1,063	\$ 1,027	\$ 1,012	\$ 857	\$ 635	\$ 773	\$ 715	\$ 598	\$ 611
Contributions in relation to the actuarially determined contribution		<u>1,400</u>	<u>1,213</u>	<u>1,048</u>	<u>1,080</u>	<u>1,253</u>	<u>909</u>	<u>1,250</u>	<u>1,080</u>	<u>1,074</u>	<u>1,082</u>
Contribution deficiency (excess)		<u>\$ 65</u>	<u>\$ (150)</u>	<u>\$ (21)</u>	<u>\$ (68)</u>	<u>\$ (396)</u>	<u>\$ (274)</u>	<u>\$ (477)</u>	<u>\$ (365)</u>	<u>\$ (476)</u>	<u>\$ (471)</u>
Covered payroll		\$ 32,277	\$ 31,684	\$ 27,383	\$ 27,472	\$ 28,203	\$ 25,748	\$ 25,579	\$ 22,985	\$ 22,847	\$ 22,675
Contributions as a percentage of covered payroll		4.34 %	3.83 %	3.83 %	3.93 %	4.44 %	3.53 %	4.89 %	4.70 %	4.70 %	4.77 %

Notes to Schedule

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

Methods and assumptions used to determine contribution rates for 2019:

	<u>DTC Plan</u>	<u>DART Plan</u>
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 11 to 20 years	15 years rolling
Asset valuation method	Five-year market smoothed	Five-year market smoothed
Inflation	2.0%	2.5%
Salary increases	2.5%, including inflation	2.5%
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-2014 Mortality with generational projection using scale MP-2017	Sex distinct RP-2014 Blue Collar Mortality, Fully Generational, using Scale MP-2018

See independent auditors' report.

State of Delaware
Department of Transportation
Required Supplementary Information
June 30, 2020 and 2019

Schedule of Changes in Net OPEB Liability and Related Ratios - DTC

Last 10 Fiscal Years
(Dollar amounts in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total OPEB liability										
Service cost	\$ 10,497	\$ 11,454	\$ 13,166							
Interest	5,571	5,786	4,801							
Changes of benefit terms	-	-	-							
Differences between expected and actual experience	(955)	(23,812)	(1,365)							
Changes in assumptions	15,478	1,137	(21,367)							
Benefit payments, net of retiree contributions	<u>(2,516)</u>	<u>(2,280)</u>	<u>(2,072)</u>							
Net changes in total OPEB liability	28,075	(7,715)	(6,837)							
Total OPEB liability - beginning	<u>155,632</u>	<u>163,347</u>	<u>170,184</u>							
Total OPEB liability - ending (a)	<u>\$ 183,707</u>	<u>\$ 155,632</u>	<u>\$ 163,347</u>							
Plan fiduciary net position										
Contributions - employer	\$ 2,516	\$ 2,280	\$ 3,572							
Net investment income	261	589	(20)							
Benefit payments, net of retiree contributions	(2,516)	(2,280)	(2,072)							
Administrative expense	<u>-</u>	<u>-</u>	<u>-</u>							
Net changes in plan fiduciary net position	261	589	1,480							
Plan fiduciary net position - beginning	<u>4,325</u>	<u>3,736</u>	<u>2,256</u>							
Plan fiduciary net position - ending (b)	<u>\$ 4,586</u>	<u>\$ 4,325</u>	<u>\$ 3,736</u>							
Net OPEB liability - ending (a) - (b)	<u>\$ 179,121</u>	<u>\$ 151,307</u>	<u>\$ 159,611</u>							
Plan fiduciary net position as a percentage of total OPEB liability	2.50 %	2.78 %	2.29 %							
Covered-employee payroll	\$ 53,654	\$ 52,732	\$ 50,228							
Net OPEB liability as a percentage of covered-employee payroll	333.84 %	286.94 %	317.77 %							

Information for Fiscal Year 2016 and earlier is not available.

Notes to Schedule

Benefit changes: None.
Changes of assumptions: The discount rate was changed from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019.

See independent auditors' report.

State of Delaware
Department of Transportation
 Required Supplementary Information
 June 30, 2020 and 2019

Schedule of Investment Returns - DTC OPEB Trust

Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Annual money-weighted rate of return, net of investment expense	3.8%	6.4%	8.7%	Information for Fiscal Year 2016 and earlier is not available.						

See independent auditors' report.

SUPPLEMENTARY INFORMATION

State of Delaware
Department of Transportation
Consolidating Statement of Net Position
June 30, 2020 (with Summarized Financial Information for June 30, 2019)

	<u>Delaware Transportation Authority</u>			<u>2020</u>	<u>2019</u>
	<u>DELDOT</u>	<u>TTF</u>	<u>DTC</u>		
Current assets					
Cash and cash equivalents					
Unrestricted	\$ 1,540,927	\$ 14,714,554	\$ 15,618,857	\$ 31,874,338	\$ 35,411,270
Restricted	5,243	69,660,258	-	69,665,501	31,665,072
Pooled cash and investments	2,392,875	8,682,882	-	11,075,757	11,503,297
Investments - at fair value					
Unrestricted	-	60,018,064	3,325,738	63,343,802	103,689,108
Restricted	176,866	90,497,572	-	90,674,438	117,904,080
Accounts receivable					
Trade	6,516,849	15,624,577	406,383	22,547,809	23,035,332
Federal grants	31,450,083	438,795	22,740,809	54,629,687	21,170,935
Interest	-	357,611	-	357,611	787,555
Due from State General Fund	548,427	19,347,533	-	19,895,960	22,879,546
Inventory	18,459,497	-	4,562,636	23,022,133	21,997,748
Other assets	-	-	70,463	70,463	94,216
Total current assets	61,090,767	279,341,846	46,724,886	387,157,499	390,138,159
Noncurrent assets					
Capital assets, not depreciable					
Land	206,358,775	158,315,709	1,872,536	366,547,020	357,779,688
Infrastructure	2,654,912,501	1,700,420,459	-	4,355,332,960	4,301,367,025
Construction in progress	87,879,649	-	7,881,517	95,761,166	58,620,065
Service concession buildings and improvements	-	22,100,000	-	22,100,000	22,100,000
Capital assets, depreciable					
Land improvements	8,025,173	-	-	8,025,173	7,092,695
Buildings and improvements	89,878,663	8,036,932	99,792,768	197,708,363	186,360,423
Fixtures, vehicles, and equipment	151,751,825	-	219,671,949	371,423,774	343,713,607
Total capital assets	3,198,806,586	1,888,873,100	329,218,770	5,416,898,456	5,277,033,503
Less: accumulated depreciation	105,800,482	5,120,294	178,764,079	289,684,855	266,402,607
Capital assets, net	3,093,006,104	1,883,752,806	150,454,691	5,127,213,601	5,010,630,896
Investments - at fair value, net of current portion					
Unrestricted	-	-	1,045,580	1,045,580	-
Restricted	-	21,609,405	-	21,609,405	31,502,364
Total noncurrent assets	3,093,006,104	1,905,362,211	151,500,271	5,149,868,586	5,042,133,260
Total assets	3,154,096,871	2,184,704,057	198,225,157	5,537,026,085	5,432,271,419

(Continued)

State of Delaware
Department of Transportation
Consolidating Statement of Net Position
June 30, 2020 (with Summarized Financial Information for June 30, 2019)

	<u>Delaware Transportation Authority</u>			<u>2020</u>	<u>2019</u>
	<u>DELDOT</u>	<u>TTF</u>	<u>DTC</u>		
Deferred outflows of resources					
Loss on refundings of debt	\$ -	\$ 21,502,236	\$ -	\$ 21,502,236	\$ 25,389,950
Changes in assumptions - pension plans and OPEB plans	19,211,704	-	19,360,782	38,572,486	13,384,979
Net differences between projected and actual earnings on investments - pension and OPEB plans	629,546	-	-	629,546	3,747,678
Changes in employer proportionate share of net pension liability	327,199	-	-	327,199	93,838
Changes in employer proportionate share of net OPEB liability	2,137,806	-	-	2,137,806	-
Differences between expected and actual experience - pension plans	4,665,200	-	-	4,665,200	2,382,211
Contributions made subsequent to the measurement date - pension and OPEB plans	<u>18,657,378</u>	<u>-</u>	<u>5,660,677</u>	<u>24,318,055</u>	<u>22,342,147</u>
Total deferred outflows of resources	45,628,833	21,502,236	25,021,459	92,152,528	67,340,803
Current liabilities					
Accounts payable and other accrued expenses	27,969,314	46,319,260	5,549,117	79,837,691	66,647,709
Accrued payroll and related expenses	4,303,776	-	3,645,523	7,949,299	8,799,963
Escrow deposits	2,392,875	8,682,882	-	11,075,757	11,503,297
Customer toll deposits	-	11,422,209	-	11,422,209	12,266,467
Interest payable	-	17,532,318	-	17,532,318	14,773,482
Pollution remediation obligations	49,780	-	-	49,780	13,750
Insurance loss reserve	-	-	1,653,034	1,653,034	1,761,936
Compensated absences	715,342	-	1,374,242	2,089,584	1,803,670
Revenue bonds payable	-	78,740,000	-	78,740,000	75,440,000
Bond issue premium - net of accumulated amortization	<u>-</u>	<u>13,242,469</u>	<u>-</u>	<u>13,242,469</u>	<u>12,706,908</u>
Total current liabilities	35,431,087	175,939,138	12,221,916	223,592,141	205,717,182
Noncurrent liabilities					
Compensated absences - net of current portion	9,429,331	-	2,713,030	12,142,361	10,854,157
Insurance loss reserve - net of current portion	-	-	7,595,966	7,595,966	7,304,064
Pollution remediation obligations - net of current portion	82,000	-	-	82,000	-
TIFIA loan payable	-	223,046,815	-	223,046,815	191,936,698
Revenue bonds payable - net of current portion	-	821,170,000	-	821,170,000	762,775,000
Bond issue premium - net of accumulated amortization	-	43,287,214	-	43,287,214	35,684,126
Net pension liability	55,465,933	-	8,550,390	64,016,323	58,793,820
Net other post-employment benefits liability	<u>276,347,175</u>	<u>-</u>	<u>179,120,695</u>	<u>455,467,870</u>	<u>433,744,253</u>
Total noncurrent liabilities	<u>341,324,439</u>	<u>1,087,504,029</u>	<u>197,980,081</u>	<u>1,626,808,549</u>	<u>1,501,092,118</u>
Total liabilities	376,755,526	1,263,443,167	210,201,997	1,850,400,690	1,706,809,300

(Continued)

State of Delaware
Department of Transportation
Consolidating Statement of Net Position
June 30, 2020 (with Summarized Financial Information for June 30, 2019)

	<u>Delaware Transportation Authority</u>			<u>2020</u>	<u>2019</u>
	<u>DELDOT</u>	<u>TTF</u>	<u>DTC</u>		
Deferred inflows of resources					
Service concession arrangement	\$ -	\$ 15,785,713	\$ -	\$ 15,785,713	\$ 16,417,142
Changes in employer proportionate share of net pension liability	730,228	-	-	730,228	1,210,666
Changes in employer proportionate share of net OPEB liability	579,152	-	-	579,152	757,969
Differences between expected and actual experience - pension and OPEB plans	31,429,444	-	22,917,585	54,347,029	24,759,351
Net differences between projected and actual earnings on investments - pension and OPEB plans	250,274	-	2,948,588	3,198,862	3,113,860
Changes in assumptions - OPEB plans	<u>29,606,550</u>	<u>-</u>	<u>14,956,826</u>	<u>44,563,376</u>	<u>55,466,515</u>
Total deferred inflows of resources	62,595,648	15,785,713	40,822,999	119,204,360	101,725,503
Net position (deficit)					
Net investment in capital assets	3,093,006,104	739,221,971	150,454,691	3,982,682,766	3,972,588,463
Restricted	182,109	152,528,095	-	152,710,204	149,544,025
Unrestricted	<u>(332,813,683)</u>	<u>35,227,347</u>	<u>(178,233,071)</u>	<u>(475,819,407)</u>	<u>(431,055,069)</u>
Total net position (deficit)	<u>\$ 2,760,374,530</u>	<u>\$ 926,977,413</u>	<u>\$ (27,778,380)</u>	<u>\$ 3,659,573,563</u>	<u>\$ 3,691,077,419</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Year Ended June 30, 2020
(with Summarized Financial Information for the Fiscal Year Ended June 30, 2019)

	<u>Delaware Transportation Authority</u>			<u>2020</u>	<u>2019</u>
	<u>DELDOT</u>	<u>TTF</u>	<u>DTC</u>		
Operating revenues					
Pledged revenue - senior revenue bonds					
Turnpike revenue	\$ -	\$ 116,164,785	\$ -	\$ 116,164,785	\$ 134,922,060
Motor fuel tax revenue	-	136,824,016	-	136,824,016	142,821,665
Motor vehicle document fee, registration fee, and other revenue	-	206,793,521	-	206,793,521	218,733,154
International Fuel Tax Agreement revenue	-	1,919,003	-	1,919,003	1,860,201
Pledged revenue - project revenue bonds					
Toll revenue - US 301	-	25,833,431	-	25,833,431	7,013,141
Toll revenue - Delaware SR-1	-	54,211,068	-	54,211,068	62,485,383
Passenger fares	-	-	13,006,999	13,006,999	17,476,880
Miscellaneous	<u>16,865,363</u>	<u>8,555,516</u>	<u>3,311,740</u>	<u>28,732,619</u>	<u>56,979,405</u>
Total operating revenues	16,865,363	550,301,340	16,318,739	583,485,442	642,291,889
Operating expenses					
Road maintenance, preservation, and repairs	78,722,956	182,239,125	-	260,962,081	149,293,679
Payroll expense	132,951,798	-	94,402,896	227,354,694	220,273,785
Professional fees and services	95,667,123	182,624,039	24,846,000	303,137,162	250,227,697
Materials, supplies, and other	5,353,794	30,131,614	16,623,120	52,108,528	48,949,210
Depreciation	<u>11,576,483</u>	<u>184,250</u>	<u>20,535,966</u>	<u>32,296,699</u>	<u>32,029,308</u>
Total operating expenses	<u>324,272,154</u>	<u>395,179,028</u>	<u>156,407,982</u>	<u>875,859,164</u>	<u>700,773,679</u>
Operating income (loss)	(307,406,791)	155,122,312	(140,089,243)	(292,373,722)	(58,481,790)
Nonoperating revenues (expenses)					
Income from investments - pledged	-	5,909,992	-	5,909,992	5,524,248
Income from investments	-	-	425,011	425,011	531,943
Bad debt recovery, net of expenses	-	-	-	-	(19,955)
Federal grant revenues	269,700,736	69,046	28,935,269	298,705,051	212,039,396
Pass-through grant expenses	-	-	(10,382,203)	(10,382,203)	(5,738,675)
Interest expense	-	(34,863,880)	-	(34,863,880)	(33,218,751)
Service concession arrangement	<u>-</u>	<u>631,429</u>	<u>-</u>	<u>631,429</u>	<u>631,429</u>
Excess (deficiency) of nonoperating revenues over nonoperating expenses	<u>269,700,736</u>	<u>(28,253,413)</u>	<u>18,978,077</u>	<u>260,425,400</u>	<u>179,749,635</u>
Income (loss) before transfers	(37,706,055)	126,868,899	(121,111,166)	(31,948,322)	121,267,845

(Continued)

State of Delaware
Department of Transportation
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Year Ended June 30, 2020
(with Summarized Financial Information for the Fiscal Year Ended June 30, 2019)

	DELDOT	Delaware Transportation Authority		2020	2019
		TTF	DTC		
Transfers to other governmental agencies	\$ -	\$ (8,208,907)	\$ -	\$ (8,208,907)	\$ (8,167,828)
Transfers to State General Fund	-	(6,000,000)	-	(6,000,000)	(6,000,000)
Transfers from State General Fund	-	14,653,373	-	14,653,373	5,098,657
Capital contributions	(16,278,524)	-	16,278,524	-	-
Transfers to DTC	(27,358,968)	(94,804,300)	122,163,268	-	-
Transfers to DelDOT	140,064,100	(140,064,100)	-	-	-
Increase (decrease) in net position	58,720,553	(107,555,035)	17,330,626	(31,503,856)	112,198,674
Net position - beginning of year	<u>2,701,653,977</u>	<u>1,034,532,448</u>	<u>(45,109,006)</u>	<u>3,691,077,419</u>	<u>3,578,878,745</u>
Net position - end of year	<u>\$ 2,760,374,530</u>	<u>\$ 926,977,413</u>	<u>\$ (27,778,380)</u>	<u>\$ 3,659,573,563</u>	<u>\$ 3,691,077,419</u>

See independent auditors' report.

State of Delaware
Department of Transportation
Consolidating Statement of Cash Flows
Fiscal Year Ended June 30, 2020
(with Summarized Financial Information for the Fiscal Year Ended June 30, 2019)

	<u>Delaware Transportation Authority</u>			<u>2020</u>	<u>2019</u>
	<u>DELDOT</u>	<u>TTF</u>	<u>DTC</u>		
Cash flows from operating activities					
Receipts from customers	\$ 17,237,125	\$ 548,532,270	\$ 13,620,032	\$ 579,389,427	\$ 637,953,620
Payments to suppliers	(166,994,302)	(391,631,300)	(38,977,190)	(597,602,792)	(453,885,926)
Payments to employees	(127,954,844)	-	(80,847,369)	(208,802,213)	(202,931,538)
Insurance claims paid	-	-	(4,589,781)	(4,589,781)	(4,570,260)
Other receipts	-	-	3,311,740	3,311,740	3,477,517
Net cash provided by (used in) operating activities	(277,712,021)	156,900,970	(107,482,568)	(228,293,619)	(19,956,587)
Cash flows from noncapital financing activities					
Transfers from State General Fund	-	14,653,373	-	14,653,373	5,098,657
Transfers to State General Fund	-	(6,000,000)	-	(6,000,000)	(6,000,000)
Federal receipts for operating activities	-	-	6,194,460	6,194,460	6,313,677
Pass-through grant payments	-	-	(10,382,203)	(10,382,203)	(5,738,675)
Transfers from TTF	112,705,132	(234,868,400)	122,163,268	-	-
Transfers to other governmental agencies	-	(8,208,907)	-	(8,208,907)	(8,167,828)
Net cash provided by (used in) noncapital financing activities	112,705,132	(234,423,934)	117,975,525	(3,743,277)	(8,494,169)
Cash flows from capital and related financing activities					
Payments of revenue bond principal	-	(75,440,000)	-	(75,440,000)	(74,770,000)
Proceeds from TIFIA loan	-	24,979,629	-	24,979,629	80,459,497
Proceeds from revenue bond sales	-	137,135,000	-	137,135,000	-
Premium from revenue bond sales	-	23,285,445	-	23,285,445	-
Federal receipts for capital and related financing activities	259,051,839	-	-	259,051,839	211,318,333
Proceeds from capital contributions	(16,278,524)	-	16,278,524	-	-
Acquisition of capital assets	(79,491,487)	(29,083,773)	(40,404,227)	(148,979,487)	(248,830,181)
Payments of interest	-	(37,233,638)	-	(37,233,638)	(40,916,746)
Net cash provided by (used in) capital and related financing activities	163,281,828	43,642,663	(24,125,703)	182,798,788	(72,739,097)
Cash flows from investing activities					
Purchase of investments	-	(3,986,694,380)	11,323,406	(3,975,370,974)	(3,535,865,304)
Proceeds from sale of investments	8,298	4,051,885,086	-	4,051,893,384	3,638,087,158
Escrow insurance deposits	-	-	(13,292)	(13,292)	134,864
Interest received	-	6,339,936	425,011	6,764,947	6,187,383
Net cash provided by investing activities	8,298	71,530,642	11,735,125	83,274,065	108,544,101

(Continued)

State of Delaware
Department of Transportation
Consolidating Statement of Cash Flows
Fiscal Year Ended June 30, 2020
(with Summarized Financial Information for the Fiscal Year Ended June 30, 2019)

	<u>Delaware Transportation Authority</u>			<u>2020</u>	<u>2019</u>
	<u>DELDOT</u>	<u>TTF</u>	<u>DTC</u>		
Net increase (decrease) in cash and cash equivalents	\$ (1,716,763)	\$ 37,650,341	\$ (1,897,621)	\$ 34,035,957	\$ 7,354,248
Cash and cash equivalents - beginning of year	<u>5,655,808</u>	<u>55,407,353</u>	<u>17,516,478</u>	<u>78,579,639</u>	<u>71,225,391</u>
Cash and cash equivalents - end of year	<u>\$ 3,939,045</u>	<u>\$ 93,057,694</u>	<u>\$ 15,618,857</u>	<u>\$ 112,615,596</u>	<u>\$ 78,579,639</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (307,406,791)	\$ 155,122,312	\$ (140,089,243)	\$ (292,373,722)	\$ (58,481,790)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	11,576,483	184,250	20,535,966	32,296,699	32,029,308
Changes in assets and deferred outflows of resources					
(Increase) decrease in accounts receivable - trade	1,933,786	(2,059,296)	613,033	487,523	(794,777)
(Increase) decrease in due from State General Fund	8,331,119	(5,347,533)	-	2,983,586	(3,957,546)
Increase in inventory	(884,881)	-	(139,504)	(1,024,385)	(1,424,040)
(Increase) decrease in prepaid expenses	-	-	37,045	37,045	(20,711)
Increase in deferred outflows of resources	(17,076,408)	-	(10,941,882)	(28,018,290)	(3,888,200)
Changes in liabilities and deferred inflows of resources					
Increase (decrease) in accounts payable and other accrued expenses	5,185,303	8,711,011	(706,332)	13,189,982	1,383,972
Increase (decrease) in escrow deposits	(1,562,024)	1,134,484	-	(427,540)	370,390
Increase (decrease) in insurance loss reserve	-	-	183,000	183,000	(113,000)
Decrease in due to State General Fund	-	-	-	-	(5,573,127)
Increase in compensated absences	945,604	-	628,514	1,574,118	1,041,492
Increase (decrease) in accrued payroll and related expenses	(939,132)	-	88,468	(850,664)	1,087,146
Decrease in customer toll deposits	-	(844,258)	-	(844,258)	(436,365)
Increase (decrease) in pollution remediation obligations	118,030	-	-	118,030	(70,750)
Increase (decrease) in net pension liability	9,883,424	-	(4,660,921)	5,222,503	3,620,888
Increase (decrease) in net other post-employment benefits liability	(6,089,681)	-	27,813,298	21,723,617	(10,098,145)
Increase (decrease) in deferred inflows of resources	<u>18,273,147</u>	<u>-</u>	<u>(844,010)</u>	<u>17,429,137</u>	<u>25,368,668</u>
Net cash provided by (used in) operating activities	<u>\$ (277,712,021)</u>	<u>\$ 156,900,970</u>	<u>\$ (107,482,568)</u>	<u>\$ (228,293,619)</u>	<u>\$ (19,956,587)</u>

See independent auditors' report.

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Net Position in Accordance with Trust Agreement
June 30, 2020
(with Comparative Totals for June 30, 2019)

	Operations	Trust Holdings	Debt Reserve	(Memorandum Only)	
				2020	2019
Current assets					
Cash and cash equivalents					
Unrestricted	\$ 14,705,965	\$ 8,589	\$ -	\$ 14,714,554	\$ 16,200,802
Restricted	475	69,658,731	1,052	69,660,258	31,658,153
Pooled cash and investments	8,682,882	-	-	8,682,882	7,548,398
Investments - at fair value					
Unrestricted	58,862,438	1,155,626	-	60,018,064	88,094,467
Restricted	248,067	46,716,314	43,533,191	90,497,572	117,718,916
Accounts receivable					
Trade	15,624,577	-	-	15,624,577	13,565,281
Federal grants	438,795	-	-	438,795	369,749
Interest	357,611	-	-	357,611	787,555
Due from State General Fund	19,347,533	-	-	19,347,533	14,000,000
Total current assets	118,268,343	117,539,260	43,534,243	279,341,846	289,943,321
Noncurrent assets					
Capital assets, not depreciable					
Land	-	158,315,709	-	158,315,709	157,765,959
Infrastructure	-	1,700,420,459	-	1,700,420,459	1,671,886,436
Service concession buildings and improvements	-	22,100,000	-	22,100,000	22,100,000
Capital assets, depreciable					
Buildings and improvements	-	8,036,932	-	8,036,932	8,036,932
Total capital assets	-	1,888,873,100	-	1,888,873,100	1,859,789,327
Less: accumulated depreciation	-	5,120,294	-	5,120,294	4,936,044
Capital assets, net	-	1,883,752,806	-	1,883,752,806	1,854,853,283
Investments - at fair value, net of current portion					
Restricted	367,395	-	21,242,010	21,609,405	31,502,364
Total noncurrent assets	367,395	1,883,752,806	21,242,010	1,905,362,211	1,886,355,647
Total assets	118,635,738	2,001,292,066	64,776,253	2,184,704,057	2,176,298,968
Deferred outflows of resources - loss on refundings of debt	-	21,502,236	-	21,502,236	25,389,950

(Continued)

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Net Position in Accordance with Trust Agreement
June 30, 2020
(with Comparative Totals for June 30, 2019)

	<u>Operations</u>	<u>Trust Holdings</u>	<u>Debt Reserve</u>	<u>(Memorandum Only)</u>	
				<u>2020</u>	<u>2019</u>
Current liabilities					
Accounts payable and other accrued expenses	\$ 46,319,260	\$ -	\$ -	\$ 46,319,260	\$ 37,608,249
Escrow deposits	-	8,682,882	-	8,682,882	7,548,398
Customer toll deposits	11,422,209	-	-	11,422,209	12,266,467
Interest payable	-	17,532,318	-	17,532,318	14,773,482
Revenue bonds payable	-	78,740,000	-	78,740,000	75,440,000
Bond issue premium - net of accumulated amortization	-	13,242,469	-	13,242,469	12,706,908
Total current liabilities	<u>57,741,469</u>	<u>118,197,669</u>	<u>-</u>	<u>175,939,138</u>	<u>160,343,504</u>
Noncurrent liabilities					
TIFIA loan payable	-	223,046,815	-	223,046,815	191,936,698
Revenue bonds payable - net of current portion	-	821,170,000	-	821,170,000	762,775,000
Bond issue premium - net of accumulated amortization	-	43,287,214	-	43,287,214	35,684,126
Total noncurrent liabilities	<u>-</u>	<u>1,087,504,029</u>	<u>-</u>	<u>1,087,504,029</u>	<u>990,395,824</u>
Total liabilities	<u>57,741,469</u>	<u>1,205,701,698</u>	<u>-</u>	<u>1,263,443,167</u>	<u>1,150,739,328</u>
Deferred inflows of resources - service concession arrangement	<u>-</u>	<u>15,785,713</u>	<u>-</u>	<u>15,785,713</u>	<u>16,417,142</u>
Net position					
Net investment in capital assets	-	739,221,971	-	739,221,971	816,810,850
Restricted	615,937	87,135,905	64,776,253	152,528,095	149,351,942
Unrestricted	<u>60,278,332</u>	<u>(25,050,985)</u>	<u>-</u>	<u>35,227,347</u>	<u>68,369,656</u>
Total net position	<u>\$ 60,894,269</u>	<u>\$ 801,306,891</u>	<u>\$ 64,776,253</u>	<u>\$ 926,977,413</u>	<u>\$ 1,034,532,448</u>

See independent auditors' report.

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Revenues, Expenses, and Changes in Net Position in Accordance with Trust Agreement
Fiscal Year Ended June 30, 2020
(with Comparative Totals for the Fiscal Year Ended June 30, 2019)

	Operations	Trust Holdings	Debt Reserve	(Memorandum Only)	
				2020	2019
Operating revenues					
Pledged revenue - senior revenue bonds					
Turnpike revenue	\$ 116,164,785	\$ -	\$ -	\$ 116,164,785	\$ 134,922,060
Motor fuel tax revenue	136,824,016	-	-	136,824,016	142,821,665
Motor vehicle document fee revenue	113,609,131	-	-	113,609,131	119,822,761
Motor vehicle registration fee revenue	53,829,366	-	-	53,829,366	58,054,092
Other motor vehicle revenue	39,355,024	-	-	39,355,024	40,856,301
International Fuel Tax Agreement revenue	1,919,003	-	-	1,919,003	1,860,201
Pledged revenue - project revenue bonds					
Toll revenue - US 301	25,833,431	-	-	25,833,431	7,013,141
Total pledged revenue	487,534,756	-	-	487,534,756	505,350,221
Toll revenue - Delaware SR-1	54,211,068	-	-	54,211,068	62,485,383
Miscellaneous	8,753,668	(198,152)	-	8,555,516	14,859,094
Total operating revenues	550,499,492	(198,152)	-	550,301,340	582,694,698
Operating expenses					
Road maintenance, preservation, and repairs	795,916	181,443,209	-	182,239,125	129,389,330
Professional fees	53,962,474	128,661,565	-	182,624,039	178,753,698
Materials, supplies, and other	22,572,319	7,559,295	-	30,131,614	24,401,017
Depreciation	-	184,250	-	184,250	188,500
Total operating expenses	77,330,709	317,848,319	-	395,179,028	332,732,545
Operating income (loss)	473,168,783	(318,046,471)	-	155,122,312	249,962,153
Nonoperating revenues (expenses)					
Income from investments - pledged	842,835	3,400,276	1,666,881	5,909,992	5,524,248
Federal grant revenues	-	69,046	-	69,046	127,316
Interest expense	-	(34,863,880)	-	(34,863,880)	(33,218,751)
Service concession arrangement	-	631,429	-	631,429	631,429
Excess (deficiency) of nonoperating revenues over nonoperating expenses	842,835	(30,763,129)	1,666,881	(28,253,413)	(26,935,758)
Income (loss) before transfers	474,011,618	(348,809,600)	1,666,881	126,868,899	223,026,395

(Continued)

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Revenues, Expenses, and Changes in Net Position in Accordance with Trust Agreement (Continued)
Fiscal Year Ended June 30, 2020
(with Comparative Totals for the Fiscal Year Ended June 30, 2019)

	<u>Operations</u>	<u>Trust Holdings</u>	<u>Debt Reserve</u>	<u>(Memorandum Only)</u>	
				<u>2020</u>	<u>2019</u>
Net transfers per agreement	\$ (184,993,171)	\$ 250,949,943	\$ (65,956,772)	\$ -	\$ -
Transfers to other governmental agencies	(8,208,907)	-	-	(8,208,907)	(8,167,828)
Transfers to State General Fund	(6,000,000)	-	-	(6,000,000)	(6,000,000)
Transfers from State General Fund	5,697,651	8,955,722	-	14,653,373	5,098,657
Transfers to DTC	(94,804,300)	-	-	(94,804,300)	(93,181,900)
Transfers to DelDOT	<u>(140,064,100)</u>	<u>-</u>	<u>-</u>	<u>(140,064,100)</u>	<u>(120,138,852)</u>
Changes in net position	45,638,791	(88,903,935)	(64,289,891)	(107,555,035)	636,472
Net position - beginning of year	<u>15,255,478</u>	<u>890,210,826</u>	<u>129,066,144</u>	<u>1,034,532,448</u>	<u>1,033,895,976</u>
Net position - end of year	<u>\$ 60,894,269</u>	<u>\$ 801,306,891</u>	<u>\$ 64,776,253</u>	<u>\$ 926,977,413</u>	<u>\$ 1,034,532,448</u>

See independent auditors' report.

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Revenue Bonds Outstanding
June 30, 2020

Principal	2010 B Series	2012 Series	2014 Series	2016 Series	2017 Series	2019 Series	Total Senior Bond Series	GARVEE 2010 Series	US 301 Project 2015 Series	Total
FY21	\$ 5,200,000	\$ 12,715,000	\$ 10,650,000	\$ 12,825,000	\$ 23,720,000	\$ 1,625,000	\$ 66,735,000	\$ 8,785,000	\$ 3,220,000	\$ 78,740,000
FY22	5,340,000	23,100,000	12,330,000	13,420,000	8,300,000	4,535,000	67,025,000	9,210,000	5,225,000	81,460,000
FY23	5,495,000	30,280,000	8,060,000	14,085,000	2,770,000	4,770,000	65,460,000	9,625,000	5,675,000	80,760,000
FY24	5,655,000	24,800,000	8,465,000	14,745,000	2,910,000	5,015,000	61,590,000	10,145,000	-	71,735,000
FY25	5,830,000	19,350,000	195,000	22,725,000	3,055,000	5,270,000	56,425,000	10,555,000	-	66,980,000
FY26	6,015,000	-	12,045,000	23,770,000	3,205,000	5,540,000	50,575,000	-	-	50,575,000
FY27	6,215,000	-	-	24,870,000	3,365,000	5,825,000	40,275,000	-	-	40,275,000
FY28	6,450,000	-	-	17,930,000	3,535,000	6,125,000	34,040,000	-	-	34,040,000
FY29	6,695,000	-	-	18,815,000	3,715,000	6,435,000	35,660,000	-	-	35,660,000
FY30	6,945,000	-	-	16,215,000	3,860,000	6,765,000	33,785,000	-	-	33,785,000
FY31	7,210,000	-	-	-	3,955,000	7,115,000	18,280,000	-	-	18,280,000
FY32	-	-	-	-	4,055,000	7,480,000	11,535,000	-	1,285,000	12,820,000
FY33	-	-	-	-	4,180,000	7,860,000	12,040,000	-	1,450,000	13,490,000
FY34	-	-	-	-	4,305,000	8,180,000	12,485,000	-	2,450,000	14,935,000
FY35	-	-	-	-	4,435,000	8,430,000	12,865,000	-	3,200,000	16,065,000
FY36	-	-	-	-	4,565,000	8,690,000	13,255,000	-	3,500,000	16,755,000
FY37	-	-	-	-	4,705,000	8,950,000	13,655,000	-	4,000,000	17,655,000
FY38	-	-	-	-	4,845,000	9,225,000	14,070,000	-	2,250,000	16,320,000
FY39	-	-	-	-	-	9,505,000	9,505,000	-	3,395,000	12,900,000
FY40	-	-	-	-	-	9,795,000	9,795,000	-	3,660,000	13,455,000
FY41	-	-	-	-	-	-	-	-	4,835,000	4,835,000
FY42	-	-	-	-	-	-	-	-	6,090,000	6,090,000
FY43	-	-	-	-	-	-	-	-	6,420,000	6,420,000
FY44	-	-	-	-	-	-	-	-	6,825,000	6,825,000
FY45	-	-	-	-	-	-	-	-	7,280,000	7,280,000
FY46	-	-	-	-	-	-	-	-	8,770,000	8,770,000
FY47	-	-	-	-	-	-	-	-	10,400,000	10,400,000
FY48	-	-	-	-	-	-	-	-	11,095,000	11,095,000
FY49	-	-	-	-	-	-	-	-	11,810,000	11,810,000
FY50	-	-	-	-	-	-	-	-	12,515,000	12,515,000
FY51	-	-	-	-	-	-	-	-	14,490,000	14,490,000
FY52	-	-	-	-	-	-	-	-	16,595,000	16,595,000
FY53	-	-	-	-	-	-	-	-	17,615,000	17,615,000
FY54	-	-	-	-	-	-	-	-	18,670,000	18,670,000
FY55	-	-	-	-	-	-	-	-	19,815,000	19,815,000
	<u>\$ 67,050,000</u>	<u>\$ 110,245,000</u>	<u>\$ 51,745,000</u>	<u>\$ 179,400,000</u>	<u>\$ 93,480,000</u>	<u>\$ 137,135,000</u>	<u>\$ 639,055,000</u>	<u>\$ 48,320,000</u>	<u>\$ 212,535,000</u>	<u>\$ 899,910,000</u>

See independent auditors' report.

Delaware Transportation Authority
Transportation Trust Fund
Schedule of Revenue Bond Coverage
June 30, 2020

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Authority. Further information for the Authority may be found in the notes to financial statements, changes in long-term liabilities, and bonds outstanding.

(Dollar amounts in thousands)

Fiscal Year	Gross Pledged Revenue	Debt Service Requirements			Coverage*
		Principal	Interest	Total	
2010	\$ 363,948	\$ 74,380	\$ 50,885	\$ 125,265	2.91
2011	376,186	71,760	52,585	124,345	3.03
2012	378,960	76,320	56,411	132,731	2.86
2013	387,918	83,230	48,097	131,327	2.95
2014	401,923	75,205	47,162	122,367	3.28
2015	412,850	77,655	41,467	119,122	3.47
2016	462,205	72,580	44,450	117,030	3.95
2017	479,570	70,595	44,581	115,176	4.16
2018	485,861	69,880	42,885	112,765	4.31
2019	503,861	66,785	27,704	94,489	5.33
2020	467,611	67,065	24,405	91,470	5.11

* The above calculation represents the total gross pledged revenue as it relates to the total debt service requirement of all Senior and Junior Bonds. The calculation above does not include pledged revenues from US 301 toll revenues, nor does it include any debt service requirements related to the US 301 Project Revenue Bonds, the GARVEE bonds, or the TIFIA loan payable. The calculation method used in the Official Statement per the Trust Agreement calculates only the Senior Bond debt service requirement and subtracts investment income revenue from gross pledged revenue.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

State of Delaware Department of Transportation
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the State of Delaware Department of Transportation (Department of Transportation), which is an enterprise fund of the State of Delaware, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Transportation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Transportation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Transportation's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Baltimore, Maryland
December 21, 2020