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# City of Detroit

## CITY COUNCIL

### LEGISLATIVE POLICY DIVISION

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TO: Gary Bulluck, Interim General Manager  
Detroit Transportation Corporation – People Mover

FROM: David Whitaker, Director  
Legislative Policy Division

DATE: March 6, 2020

RE: 2020-2021 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2020-2021 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Monday, March 9 at 1 p.m.** We would then appreciate a written response to the issues/questions prior to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

#### Attachments:

Issues and Questions  
Financial Statements

cc: Councilmembers  
Auditor General  
David Massaron, Chief Financial Officer  
Tanya Stoudemire, Budget Director  
Stephanie Washington, Mayor's Office

## Detroit Transportation Corporation (People Mover)

### FY 2020-2021 Budget Analysis by the Legislative Policy Division

#### Summary

The Detroit Transportation Corporation (DTC) was created by the City of Detroit pursuant to P.A. 7 of 1967 as a component unit of the city for the basic purpose of acquiring, completing and operating the Downtown People Mover.

The DTC is governed by a Board of Directors consisting of six members, appointed by the Mayor without compensation or set terms. The City Council President also sits on the board.

The DTC organization structure includes twelve divisions: Administration, Executive, Accounting, Field Operations, Homeland, Human Resources, Maintenance, Marketing, Operations Administration, Quality Control, Safety, and System Operations.

For 2020-2021, the recommended budget proposes an operating subsidy of \$6.5 million which is the same as the prior four years' subsidy.

#### Issues and Questions

1. What is the current condition of the People Mover?
2. Are there any new capital needs for the system?
3. Please provide a copy of the 2020-2021 budget presented to the Board.
4. In the financial statements for June 30, 2019, it reports that the unrestricted net (deficit) position has decreased by \$200,000 since June 30, 2018 and now is (\$664,367). How was it able to improve? Will the proposed subsidy cover this deficit?
5. During the fiscal year, revenues were greater than budget by \$556,726, but expenses were greater by \$1,330,887 for an operating shortfall of \$774,161. How will operations be altered to avoid this situation going forward? How is it possible to continue with the same operating subsidy as the past few years of \$6.5 million?
6. Ticket sales went from \$1.4 million in 2017 to \$1.16 million in 2018 to \$1.04 million in 2019 – a 26% drop over a 3 year period. How are sales in the current year? What is projected for this proposed budget?
7. Please indicate the number of vacant positions as of January 31, 2020. Please briefly describe the difficulty of filling the vacancies. Also, please briefly explain the department's strategy to fill any vacant positions, or request new positions.
8. Have there been discussions with the new owner of the Joe Louis Parking Garage as they prepare to rehab and reopen to alleviate parking downtown. Is that plan expected to increase ticket or monthly pass sales?
9. Please briefly explain the department's new expense initiatives, new capital funding requests, operational reform and savings proposals, and new revenue initiatives/proposals to be implemented in FY 2021. Please provide which appropriation/cost center the new initiative/request/proposal is impacting in FY 2021.

**DETROIT TRANSPORTATION CORPORATION**

**FINANCIAL REPORT**

**JUNE 30, 2019**

# DETROIT TRANSPORTATION CORPORATION

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# *Alan C. Young & Associates, P.C.*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Detroit Transportation Corporation  
Detroit, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Detroit Transportation Corporation (DTC), a component unit of the City of Detroit and fiduciary fund, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise DTC'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 the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 auditor's 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Independent Auditor's Report  
(Continued)**

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DTC and fiduciary fund as of June 30, 2019, and the changes in financial position, and cash flows thereof for the year 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's discussion and analysis and retirement system schedules as listed in the 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 Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we will also be issuing our report November 30, 2019, on our consideration of DTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DTC'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 DTC's internal control over financial reporting and compliance.

*Alan L. Young, Assoc.*

Detroit, Michigan  
November 30, 2019

**MANAGEMENT'S DISCUSSION  
&  
ANALYSIS (MD&A)**

# **DETROIT TRANSPORTATION CORPORATION**

**Management's Discussion & Analysis  
June 30, 2019**

The management of Detroit Transportation Corporation (DTC) presents this narrative overview and analysis of the financial activities of DTC for the fiscal year ended June 30, 2019. This discussion and analysis provides the management's insights to assist the readers to identify significant financial issues and also the changes in the financial position. We encourage readers to consider this information in conjunction with the financial statements as a whole.

Questions concerning any of the information provided in this report or request for additional information should be addressed to the Controller, Detroit Transportation Corporation, 535 Griswold, Suite 400, Detroit MI 48226, Telephone (313) 224-2160.

## **FINANCIAL HIGHLIGHTS**

The assets and deferred outflows of DTC exceeded its liabilities and deferred inflows at June 30, 2019 by approximately \$31 million (net position).

The operating loss increased by \$2,076,733 from \$18,965,750 for the year ended June 30, 2018 to \$21,042,483 for the year ended June 30, 2019.

Per the statement of net position, DTC had \$2,318,819 of its net position restricted for beam maintenance.

The largest portion of DTC's net position is reflected in its investment in capital assets (land, artwork, transportation equipment, office equipment, etc.).

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The basic financial statements include two kinds of statements:

The first set of statements are for the Proprietary Fund, which tells how basic transportation services were financed in the short-term and what remains for future spending.

The second set of statements are for the Pension Trust Fund, which is a fiduciary fund. These statements provide information about the financial relationship in which DTC acts as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the more significant information contained within the statements and provide more detailed data. The notes are followed by a series of required supplemental information that further explains and supports the financial statements.



# **DETROIT TRANSPORTATION CORPORATION**

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Management's Discussion & Analysis (Continued)  
June 30, 2019

## **OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

### **Proprietary Fund Statements**

The proprietary fund statements report information about DTC as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of DTC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The statement of revenues, expenses and changes in net position accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The net position of the proprietary fund is reported in the statement of net position. Net position – the difference between DTC's assets plus deferred outflows and liabilities plus deferred inflows – is one way to measure DTC's financial health or position. Over time, increases or decreases in DTC's net position are one indicator of whether its financial position is improving or deteriorating. To assess the overall health of DTC, you must also consider additional factors such as changes in Federal and State programs.

### **Fiduciary Fund Statements**

DTC administers the pension plan which covers substantially all union and administrative employees. DTC is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the propriety fund financial statements because DTC cannot use these assets to finance its operations.

# DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis (Continued)  
June 30, 2019

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

**Statement of Net Position** – Presented below is the condensed net position (the detailed financial statement is provided on pages 9 and 10):

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current Assets	\$ 11,294,485	\$ 11,085,408
Restricted Assets	2,318,819	4,163,072
Capital Assets Net of Accumulated Depreciation	27,914,232	29,204,814
<b>Total Assets</b>	<b>41,527,536</b>	<b>44,453,294</b>
<b>Deferred Outflows of Resources</b>		
Pension Cost Deferred	1,510,561	1,782,106
<b>Total Deferred Outflows of Resources</b>	<b>1,510,561</b>	<b>1,782,106</b>
<b>Liabilities</b>		
Current Liabilities	2,570,483	2,955,068
Long-Term Liabilities, except Pension	532,477	629,901
Pension Liability	7,740,979	7,796,878
<b>Total Liabilities</b>	<b>10,843,939</b>	<b>11,381,847</b>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows Related to Pension	1,427,283	1,146,540
<b>Total Deferred Inflows of Resources</b>	<b>1,427,283</b>	<b>1,146,540</b>
<b>Net Position</b>		
Net Investment in Capital Assets	27,914,232	29,204,814
Restricted	3,517,010	5,361,263
Unrestricted	(664,367)	(859,064)
<b>Total Net Position</b>	<b>\$ 30,766,875</b>	<b>\$ 33,707,013</b>

**Analysis of Net Position** – As noted earlier, net position may serve as a useful indicator of a government's financial position. DTC's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$31 million at the close of fiscal year 2019.

# DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis (Continued)  
June 30, 2019

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Changes in Net Position – Presented below are the condensed activities for the years ended June 30, 2019 and 2018 (the detailed financial statement is presented on page 11):

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Charges for Sales and Services: Ticket Sales	\$ 1,044,769	\$ 1,164,793
<b>Total Operating Revenues</b>	<u>1,044,769</u>	<u>1,164,793</u>
<b>Operating Expenses</b>		
Administration	(19,516,037)	(17,828,383)
Depreciation	<u>(2,571,215)</u>	<u>(2,302,160)</u>
<b>Total Operating Expenses</b>	<u>(22,087,252)</u>	<u>(20,130,543)</u>
<b>Operating Loss</b>	<u>(21,042,483)</u>	<u>(18,965,750)</u>
<b>Capital and Nonoperating Revenues</b>		
Investment Income (Loss)	(309,139)	23,563
Grant and Other Revenues	<u>18,411,484</u>	<u>17,652,367</u>
<b>Net Capital and Nonoperating Revenues</b>	<u>18,102,345</u>	<u>17,675,930</u>
Change in Net Position	(2,940,138)	(1,289,820)
Net Position, Beginning of Year	<u>33,707,013</u>	<u>34,996,833</u>
<b>Net Position, End of Year</b>	<u>\$ 30,766,875</u>	<u>\$ 33,707,013</u>

Analysis of Statement of Changes in Net Position– DTC's net position decreased by \$2.9 million during the current fiscal year.

# DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis (Continued)  
June 30, 2019

## CAPITAL ASSETS

DTC's net investment in capital assets was \$27,914,232 net of accumulated depreciation as of June 30, 2019, a decrease of 4% compared to prior year. Capital assets include land, transportation equipment, train control and office equipment, etc. Depreciation was provided on all depreciable capital assets using the straight-line method. Additional information about capital assets can be found in Note 3 to the basic financial statements.

## BUDGETARY DATA

The budget vs actual data is as follows:

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		Positive/ (Negative)
<b>Revenues:</b>				
Ticket & Token Sales	\$ 1,175,000	\$ 1,175,000	\$ 1,044,769	\$ (130,231)
FTA Grants	600,000	600,000	864,689	264,689
MDOT Rail Grant Revenue	150,000	150,000	216,169	66,169
SEMCOG Grant Revenue	76,180	76,180	109,825	33,645
Misc. Revenue & Rental Income	457,000	457,000	195,911	(261,089)
Advertising Revenue	550,000	550,000	409,790	(140,210)
City Subsidy - Transit Police	2,500,000	2,500,000	2,500,000	-
M-1 Rail (Qline)	960,000	960,000	929,182	(30,818)
City Subsidy	6,500,000	6,500,000	6,960,244	460,244
State Operating Assistance	5,622,208	5,622,208	5,916,535	294,327
<b>Total Revenues</b>	<b>\$ 18,590,388</b>	<b>\$ 18,590,388</b>	<b>\$ 19,147,114</b>	<b>\$ 556,726</b>
<b>Expenditures:</b>				
Cost of Sales & Services				
Administration	\$ 18,132,182	\$ 18,132,182	\$ 19,516,037	\$ (1,383,855)
Depreciation	2,624,183	2,624,183	2,571,215	52,968
<b>Total Expenditures</b>	<b>\$ 20,756,365</b>	<b>\$ 20,756,365</b>	<b>\$ 22,087,252</b>	<b>\$ (1,330,887)</b>

## CAPITAL ACQUISITION GRANT ACTIVITIES

Capital grants for the acquisition of capital assets are recorded as grants receivable in the balance sheet and capital contributions in the statement of revenues, expenses and changes in the net position when the related qualified expenditures are incurred.

# DETROIT TRANSPORTATION CORPORATION

Statement of Net Position  
Proprietary Fund  
June 30, 2019

## ASSETS

### Current Assets

Cash and Cash Equivalents (Note 2)	\$ 2,485,686
Cash and Cash Equivalents - Restricted (Note 2)	1,198,191
Investments (Note 2)	21,330
Accounts Receivable, Net	289,535
Inter-Governmental Receivables (Note 4)	3,548,203
Inventories	3,229,708
Prepaid Expenses and Other	521,832
<b>Total Current Assets</b>	<b>11,294,485</b>

### Non Current Assets (Note 2)

Restricted Investments	2,318,819
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### Capital Assets (Note 3)

Land	3,697,271
Capital Work-in-Process	211,184
Artwork	1,986,000
Transportation Equipment and Structures	222,403,435
Other Equipment	5,696,268
Furniture and Fixture	519,864
Auto	49,708
Software	147,586
Less: Accumulated Depreciation	(206,797,084)
<b>Total Capital Assets (Net of Accumulated Depreciation)</b>	<b>27,914,232</b>

<b>Total Non Current Assets</b>	<b>30,233,051</b>
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<b>Total Assets</b>	<b>41,527,536</b>
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### Deferred Outflows of Resources

Pension Cost Deferred (Note 7)	1,510,561
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<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 43,038,097</b>
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*The accompanying notes are an integral part of these financial statements.*

# DETROIT TRANSPORTATION CORPORATION

Statement of Net Position (Continued)  
Proprietary Fund  
June 30, 2019

## LIABILITIES AND NET POSITION

### Current Liabilities Payable from Current Assets

Accounts and Contracts Payable	\$ 1,725,355
Accrued Salaries and Wages	321,992
Accrued Compensated Absences, Current Portion	98,537
Other Payables	424,599

**Total Current Liabilities** 2,570,483

### Long-Term Liabilities

Accrued Compensated Absences, Net of Current Portion	332,477
Net Pension Liability (Note 7)	7,740,979
Settlement Payable (Note 8)	200,000

**Total Long-Term Liabilities** 8,273,456

**Total Liabilities** 10,843,939

### Deferred Inflows of Resources

Deferred Inflows Related to Pension (Note 7)	1,427,283
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**Total Liabilities and Deferred Inflows of Resources** 12,271,222

## NET POSITION

Net Investment in Capital Assets	27,914,232
Restricted	
Beam Maintenance	2,318,819
FTA Projects	1,198,191
Unrestricted	(664,367)

**Total Net Position** 30,766,875

**Total Liabilities, Deferred Inflows of Resources and Net Position** \$ 43,038,097

*The accompanying notes are an integral part of these financial statements.*

# DETROIT TRANSPORTATION CORPORATION

## Statement of Revenues, Expenses, and Changes in Net Position Proprietary Fund Year Ended June 30, 2019

### OPERATING REVENUES

Charges for Sales and Services: Ticket Sales	\$ 1,044,769
<b>Total Operating Revenues</b>	<u>1,044,769</u>

### Costs of Sales and Services

Labor	7,910,939
Fringe Benefits	4,993,910
Services	3,941,961
Material and Supplies	397,316
Utilities	994,335
Insurance	885,038
Miscellaneous Expenses	77,129
Operating Leases	315,409
Depreciation	2,571,215
<b>Total Operating Expenses</b>	<u>22,087,252</u>

Operating Loss (21,042,483)

### NONOPERATING REVENUES (EXPENSES)

Operating Grants and Contracts	
Federal	109,825
State	5,916,535
Local	10,389,426
Interest Income	366,016
Rental Income	24,486
Misc. Revenue	114,548
Advertising Income	409,790
Net Unrealized Gain on Investments	(309,139)
<b>Total Nonoperating Revenue</b>	<u>17,021,487</u>

Net Loss Before Capital Contributions (4,020,996)

### CAPITAL CONTRIBUTIONS

Federal Grants	864,689
State Grants	216,169
<b>Total Capital Contributions</b>	<u>1,080,858</u>

Change in Net Position (2,940,138)

Net Position - Beginning of Year 33,707,013

Net Position - End of Year \$ 30,766,875

*The accompanying notes are an integral part of these financial statements.*

# DETROIT TRANSPORTATION CORPORATION

## Statement of Cash Flows Proprietary Fund Year Ended June 30, 2019

<b>CASH FLOWS FROM OPERATIONS</b>	
Receipts from Customers	\$ 1,044,769
Payments to Suppliers	(6,675,150)
Payments to Employees	(12,335,983)
<b>Net Cash Used in Operating Activities</b>	<u>(17,966,364)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal Operating Grants	150,639
State of Michigan Grants	5,339,250
Local Nonoperating Receipts	11,586,553
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>17,076,442</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(1,283,035)
Capital Contribution by Government Units	1,504,409
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<u>221,374</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of S.I.R investments	(6,335)
Purchase of restricted investments	(364,886)
Withdrawal from restricted investments	1,900,000
Interest Income	366,016
<b>Net Cash Provided by Investing Activities</b>	<u>1,894,795</u>
Net Increase in Cash and Cash Equivalents	1,226,247
Cash and Cash Equivalents, Beginning of Year	2,457,630
Cash and Cash Equivalents, End of Year (Including Restricted Cash)	<u>\$ 3,683,877</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (21,042,483)
Adjustment to Reconcile Operating Loss to Net Cash Flows from Operating Activities	
Depreciation and Amortization	2,571,215
Change in Prepaid Expenses	(124,858)
Change in Inventories	38,097
Change in Pension Cost Deferred	271,545
Change in Accounts & Contracts Payable	60,239
Change in Accrued Salaries Payable	33,924
Change in Accrued Pension Payable	(55,899)
Change in Pension Deferred Inflows	280,743
Change in Settlement Payable	(37,440)
Change in Accrued Compensated Absences	38,553
<b>Total Adjustment</b>	<u>3,076,119</u>
<b>Net Cash Used in Operating Activities</b>	<u>\$ (17,966,364)</u>

*The accompanying notes are an integral part of these financial statements.*



# DETROIT TRANSPORTATION CORPORATION

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Statement of Fiduciary Net  
Position – Pension Trust Fund  
June 30, 2019

**Assets**

**Investments at Fair Value**

Debt Securities	\$ 5,998,809
Equity Securities	10,680,955
Short Term Investments	1,200,368
<b>Total Investments</b>	<u>17,880,132</u>

<b>Total Assets</b>	<u>17,880,132</u>
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<b>Net Position (Restricted for Retirement Benefits)</b>	<u>\$ 17,880,132</u>
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*The accompanying notes are an integral part of these financial statements.*

# DETROIT TRANSPORTATION CORPORATION

## Statement of Changes in Fiduciary Net Position – Pension Trust Fund Year Ended June 30, 2019

### Additions

#### Investment Income

Cash Income	\$ 1,501,184
Accrued Income	(43)
Net Depreciation in Fair Value of Investments	(947,906)
<b>Total Investment Income</b>	<u>553,235</u>

#### Contributions

Employer	1,400,000
<b>Total Contributions</b>	<u>1,400,000</u>
<b>Total Additions</b>	<u>1,953,235</u>

#### Deductions

Benefit Payments including Refunds of Employee Contributions	490,022
<b>Total Deductions</b>	<u>490,022</u>

#### Change in Net Position

1,463,213

#### Net Position

Beginning of Year	<u>16,416,919</u>
End of Year	<u>\$ 17,880,132</u>

*The accompanying notes are an integral part of these financial statements.*

# DETROIT TRANSPORTATION CORPORATION

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Notes to Financial Statements  
June 30, 2019

## 1) INCORPORATION, PRINCIPAL ACTIVITY, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Detroit Transportation Corporation (DTC) was incorporated in 1985 as a Michigan Public Body Corporate for the purpose of acquiring, owning, constructing, furnishing, equipping, completing, operating, improving, enlarging, and/or disposing of the Central Automated Transit Systems (CATS) in Detroit, Michigan. DTC acquired the CATS project from the Suburban Mobile Authority for Regional Transportation (SMART), formerly Southeastern Michigan Transportation Authority (SEMTA), on October 4, 1985. DTC, created by the City of Detroit, Michigan pursuant to Act 7 of Public Acts of 1967, is a component unit of the City of Detroit, Michigan and accounts for its activities as per proprietary funds accounting.

The CATS project, predominantly known as the Downtown People Mover (DPM), officially opened to the public on July 31, 1987. The DPM has automated rail cars traveling a 2.9-mile loop around Detroit's central business district. Effective November 18, 1988, DTC assumed responsibility to operate and maintain the People Mover System, a responsibility which had been performed by the primary contractor, Urban Transportation Development Corporation (UTDC), on a month-to-month basis until that date.

### Accounting and Reporting Principles

DTC follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

### Report Presentation

This report includes the fund-based statements of DTC. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

### Fund Accounting

DTC accounts for its operations in a single enterprise fund. Additionally, the government reports a pension trust fund that account for the activities of the Employees' pension plan as a fiduciary fund.

### Basis of Accounting

The proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 1) INCORPORATION, PRINCIPAL ACTIVITY, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Proprietary Funds Operating Classification

DTC distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of DTC is charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

### Grant Activities

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provides financial assistance and grants directly to DTC for operations and acquisition of property and equipment. Operating grant awards made on the basis of entitlement periods are recorded as grant receivables and revenue over the entitlement periods.

Federal and state capital acquisition grants fund the purchase of capital items, including related transportation equipment used by DTC. Capital grants for the acquisition of capital assets are recorded as grants receivable in the statement of net position and capital contributions in the statement of revenue, expenses, and changes in net position when the related qualified expenditures are incurred.

When assets acquired with capital grant funds are disposed of, DTC is required to notify the granting federal agency. A proportional amount of the proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement vehicles or can be remitted to the granting federal agency at its discretion.

### Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are valued at their fair value plus accrued interest.

### Restricted Assets

Certain proceeds from sale of assets acquired by capital grants as well as certain resources set aside for Beam repair as described in Note 6 (Beam Maintenance) are classified as restricted assets on the statement of net position because their use is limited by applicable covenants and restrictions. As a general rule these restricted assets are maintained in separate accounts.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 1) INCORPORATION, PRINCIPAL ACTIVITY, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment

Investment purchases and sales are recorded as of the trade date. Investment income is recognized when earned.

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to DTC investment operations.

### Inventory and Prepaid Expenses

Inventory consists of maintenance parts and repair parts, used in the operation of the transit system. Inventories are recorded at cost. In accordance with industry practice, all inventories are classified as current assets even though a portion of the inventories is not expected to be utilized within one year.

Certain payments to vendors reflect assets applicable to future accounting periods and are recorded as prepaid items.

### Net Position

Fund Equity is classified as net position and displayed in three components:

- a) **Net Investment in Capital Assets** – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) **Restricted** – Consists of net position with constraints placed on the use by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) **Unrestricted** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 1) INCORPORATION, PRINCIPAL ACTIVITY, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Capital Assets

Capital assets, which includes property, plant and equipment are stated at cost. Donated capital assets are recorded at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Artwork	25 Years
Transportation Equipment & Structures	17-30 Years
Other Equipment	5-7 Years
Furniture and Fixtures	5-7 Years
Auto and Software	5 Years

The costs of normal maintenance and repairs are charged to expense. Renewals or betterments, which extend the life or increase the value of properties, are capitalized.

Major outlays (capital work in progress) for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the fiscal year.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an expense until then. The balance of deferred outflows of resources as of June 30, 2019 was \$1,510,561.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as revenue until that time. The total balance of deferred inflows of resources as of June 30, 2019 was \$1,427,283.

### Net Position Flow Assumption

Sometimes DTC will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is DTC's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 1) INCORPORATION, PRINCIPAL ACTIVITY, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Pension

DTC offers pension benefits to retirees. DTC records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose 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 plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. 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.

### Passenger Fares

Passenger fares are recorded as revenue at the time services are performed.

### Compensated Absences

DTC records as a liability estimated vested vacation and sick pay in accordance with the GASB Statement relating to Accounting for Compensated Absences. Unused vacation and sick pay accumulates until termination of employment.

### Deferred Compensation Plan

DTC established a plan to permit its employees to defer a portion of their salary for the purpose of providing either retirement benefits or death benefits in the event of death prior to retirement. The Plan which is entirely employee-funded was established in accordance with Internal Revenue Code Section 457.

### Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

## 2) DEPOSITS AND INVESTMENTS

DTC had adopted the City's official investment policy, which is in accordance with Michigan Public Act 20 of 1943, as amended, and Michigan Public Act 94 of 1997, as amended. DTC deposits funds with banks and invests in U.S. Government obligations as authorized by the aforementioned acts.

### Custodial Credit Risk of Bank Deposits

Cash consists of checking accounts, money market accounts, and cash-on-hand. At June 30, 2019, DTC had a deposit balance of \$250,000 (excluding outstanding checks and deposits in transit) that was insured through the Federal Deposit Insurance Corporation, and \$3,775,511 that was not insured.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 2) DEPOSITS AND INVESTMENTS (Continued)

### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. DTC's policy minimizes interest rate risk by investing funds primarily in Fixed Income, Treasuries and Mutual Funds.

### Concentration of Credit Risk

DTC's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security will be minimized.

### Credit Risk

At year end, the credit quality ratings of securities are as follows:

*Rating Organization : Standards & Poor's Rating and Moody's Rating*

	<u>Rating</u>	<u>Cost</u>	<u>Fair Value</u>
Cash & Cash Equivalents	None	\$ 1,202,462	\$ 1,202,462
<b>Fixed Income</b>			
<b>Treasuries</b>			
US Treasury Bond	AAA/Aaa	263,935	352,824
<b>Equities</b>			
Mutual Funds	Unrated	709,472	782,831
Accrued Interest	None	2,032	2,032
<b>Total</b>		<u>\$ 2,177,901</u>	<u>\$ 2,340,149</u>
<b>Restricted Investments</b>			\$ 2,318,819
<b>Unrestricted Investments</b>			\$ 21,330

In addition, as of June 30, 2019 DTC reported investments in the Statement of Fiduciary Net Position for the Pension Plan of \$17,880,132 which were held by Comerica Institutional TR and comprised as follows:

	<u>Amount</u>	<u>Percent of Portfolio</u>
Short Term Investment (including Cash)	\$ 1,200,368	6.7%
Equity Securities	10,680,955	59.7%
Debt Securities	5,998,809	33.6%
	<u>\$ 17,880,132</u>	<u>100.0%</u>



# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 2) DEPOSITS AND INVESTMENTS (Continued)

### Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that DTC has the ability to access.

**Level 2:** Inputs that are derived principally from or corroborated by observable market data by correlation or other means. Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets

Inputs other than quoted prices that are observable for the assets or liabilities;

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

All of DTC's investments including pension trust fund investments are considered to be Level 1 inputs. The fair value of DTC's investments in debt securities and mutual funds is based on quoted market prices of the bonds and shares held by DTC at the year end.

### Foreign Currency Risk

Foreign Currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. DTC's policy prohibits investment in foreign currency.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 3) CAPITAL ASSETS

DTC's Capital asset activity during the year was as follows:

	Balance July 1, 2018	Additions and Adjustments	Disposals and Adjustments	Balance June 30, 2019
Capital Assets not being Depreciated:				
Land	\$ 3,697,271	\$ -	\$ -	\$ 3,697,271
Capital Work in Process	1,797,455	82,223	(1,668,494)	211,184
<b>Total Assets not being Depreciated</b>	<b>5,494,726</b>	<b>82,223</b>	<b>(1,668,494)</b>	<b>3,908,455</b>
Capital Assets being Depreciated:				
*Artwork	1,986,000	-	-	1,986,000
Transportation Equipment & Structure	219,719,933	2,683,502	-	222,403,435
Other Equipment	5,658,050	38,218	-	5,696,268
Furniture & Fixture	519,864	-	-	519,864
Auto	65,708	-	(16,000)	49,708
Software	-	147,586	-	147,586
<b>Total Assets being Depreciated</b>	<b>227,949,555</b>	<b>2,869,306</b>	<b>(16,000)</b>	<b>230,802,861</b>
<b>Total Capital Assets</b>	<b>233,444,281</b>	<b>2,951,529</b>	<b>(1,684,494)</b>	<b>234,711,316</b>
Accumulated Depreciation:				
Artwork	1,668,240	-	-	1,668,240
Transportation Equipment & Structure	196,369,831	2,533,898	2,402	198,906,131
Other Equipment	5,631,663	15,200	-	5,646,863
Furniture & Fixture	518,528	890	-	519,418
Auto	51,205	8,699	(16,000)	43,904
Software	-	12,528	-	12,528
<b>Subtotal</b>	<b>204,239,467</b>	<b>2,571,215</b>	<b>(13,598)</b>	<b>206,797,084</b>
Net Capital Assets being Depreciated	23,710,088	298,091	(2,402)	24,005,777
<b>Net Capital Assets</b>	<b>\$ 29,204,814</b>	<b>\$ 380,314</b>	<b>\$ (1,670,896)</b>	<b>\$ 27,914,232</b>

Depreciation expense for the year was \$2,571,215.

\*Artwork was depreciated until June 30, 2012 after which it is not being depreciated.

## 4) INTER GOVERNMENTAL RECEIVABLES

At June 30, 2019, Inter Governmental receivables were as follows:

City of Detroit - Subsidy	\$ 2,042,966
City of Detroit - Transit Police	1,419,131
MDOT - Rail Grant	47,469
Federal Transit Administration	19,488
SEMCOG	19,149
<b>Total</b>	<b>\$ 3,548,203</b>

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 5) STATE OF MICHIGAN OPERATING ASSISTANCE FUNDS

Under Act 51 of the Public Acts of 1951, as amended, the State of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. DTC has recorded operating grant revenues under Act 51 based on a formula that takes into account the eligible costs incurred by DTC. The total state operating assistance grant for the year ended June 30, 2019 amounted to \$5,916,535. However, DTC received \$35,645 less than the calculated operating assistance for fiscal year 2019. Also, for fiscal year 2016, based on final audit, DTC owes a total of \$460,244 to MDOT resulting in a net payable of \$424,599. This amount is reflected in other payables in the accompanying statement of net position.

## 6) BEAM MAINTENANCE

Inspections of the People Mover System (the System) at the time of completion revealed that structural defects exist that have resulted in, and may continue to result in, cracks in the beams supporting the System's guide-way. These structural defects were determined to be the responsibility of UTDC. The total cost of maintenance was estimated at a present value of \$3,000,000 and will be made at various times over the life of the System.

DTC obtained a settlement with UTDC amounting to \$3,000,000, and assumed responsibility for all beam maintenance. Such amount was invested and is reflected as a restricted asset.

During the year 2018-19, \$2,900,000 was withdrawn from the Beam Escrow account for operating expenses. Out of this, \$1,000,000 was deposited back before year end. As of June 30, 2019, \$1,900,000 is the outstanding amount to be deposited back in Beam Escrow account. Before issuance of this report another \$1,000,000 was deposited back into the Beam Escrow account.

## 7) DEFINED BENEFIT PENSION PLAN

**Plan Description** – DTC contributes to the Detroit Transportation Corporation Employees' Retirement Plan (the Plan), a single-employer plan, which was established on July 1, 1988. DTC employees are not required to contribute to the Plan.

All DTC employees who have attained the age of 21 are eligible for the Plan. Benefits vest after five years of service. DTC employees who retire at or after the age of 62 (normal retirement) are entitled to an annual retirement benefit, payable monthly for life. The retirement benefits are an amount equal to employees final average earnings, which shall be 1.5% for the employees years of credited service from year one to year ten, 1.7% for credited service for year eleven to twenty and 1.9% for the credited service for year twenty one and thereafter. The final average is determined as the average of the highest annual earnings for the five consecutive calendar years during the last ten consecutive calendar years of employment with the DTC.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 7) DEFINED BENEFIT PENSION PLAN (Continued)

DTC employees who retire at or after the age of 55 with five or more years of vesting service (early retirement) are entitled to the normal retirement benefit reduced by 0.6% for each month that early retirement precedes normal retirement. The Plan also provides death and disability benefits.

### Employees Covered by Benefit Terms –

Retirees and Beneficiaries Receiving Benefits	47
Terminated Plan Members entitled to but not yet Receiving Benefits	50
Active Plan Members	103
<b>Total</b>	<b>200</b>

**Annual Pension Cost and Assumptions** – For the year ended June 30, 2019 DTC's annual pension cost was \$1,896,389. The actuarially determined contribution of \$1,156,401 was determined as part of an actuarial valuation at July 1, 2018, the latest actuarial valuation, using the Projected Unit Credit Method. Significant actuarial assumptions used include (a) a 6.25% investment rate of return, (b) projected salary increases of 3.00 to 7.90% per year. Both (a) and (b) include an inflation component of 2.50%. The unfunded actuarial liability is being amortized as a level percentage-of-payroll. The remaining amortization period is 30 years.

Starting with the June 30, 2016 valuation, Mortality rates are based on the RP-2014 Healthy Annuitant Mortality table with fully generational mortality projected using the MP-2016 Mortality Improvement scale. The corresponding Disabled table was used for disabled mortality.

Before that, RP-2000 Mortality table projected to 2017 using scale AA was used. Post disabled mortality is set forward 10 years.

### Contribution Required and Contribution Made

DTC contributes to the Plan based upon actuarially determined minimum contribution requirements. The contribution rate for normal cost is determined using the projected unit credit cost method. The significant actuarial assumptions used to compute the pension benefit obligation are described above.

The required contributions to the Plan were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2018. The actuarially determined contribution for 2019 and 2018 consisted of normal costs of \$1,156,401 and \$1,221,918, respectively, (approximately 19.49% and 20.03%, respectively, of current covered payroll per actuary report) plus interest on the normal costs. DTC contributed \$1,400,000 and \$1,474,711 during fiscal year 2019 and 2018, respectively.

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 7) DEFINED BENEFIT PENSION PLAN (Continued)

### Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (during the period in which the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.25%; the municipal bond rate is 3.13% (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"); and the resulting Single Discount Rate is 5.88% as of June 30, 2019.

### Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Pension Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<b>Balances at June 30, 2018</b>	\$ 24,213,797	\$ 16,416,919	\$ 7,796,878
Changes for the year:			
Service Cost	864,941	-	864,941
Interest	1,461,635	-	1,461,635
Difference between expected and actual experience	(793,435)	-	(793,435)
Contributions-Employer	-	1,400,000	(1,400,000)
Net Investment Income (Loss)	-	553,235	(553,235)
Benefit Payments	(490,022)	(490,022)	-
Assumption Changes	364,195	-	364,195
Net Changes	<u>1,407,314</u>	<u>1,463,213</u>	<u>(55,899)</u>
<b>Balances at June 30, 2019</b>	<u>\$ 25,621,111</u>	<u>\$ 17,880,132</u>	<u>\$ 7,740,979</u>

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents net pension liability of DTC, calculated using 5.88%, as well as, what DTC's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.88%), or, 1-percentage-point higher (6.88%) than the current rate:

	Current Single Discount Rate		
	1% Decrease 4.88%	Assumption 5.88%	1% Increase 6.88%
DTC's Net Pension Liability	\$ 11,273,206	\$ 7,740,979	\$ 4,782,099

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 7) DEFINED BENEFIT PENSION PLAN (Continued)

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, DTC recognized a pension expense of \$1,896,389. At June 30, 2019, DTC reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows of Resources</u>
Difference between Expected and Actual Experience	\$ 66,252	\$ 915,277	\$ (849,025)
Changes in Assumptions	849,665	175,944	673,721
Net Difference Between Projected and Actual Earnings on Pension Plan Investments (Gains) or Losses	<u>594,644</u>	<u>336,062</u>	<u>258,582</u>
<b>Total</b>	<u>\$ 1,510,561</u>	<u>\$ 1,427,283</u>	<u>\$ 83,278</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Net Deferred Outflows of Resources</u>
2020	\$ 319,859
2021	(136,813)
2022	(183,391)
2023	<u>83,623</u>
	<u>\$ 83,278</u>

### Information for Michigan Department of Transportation

<u>Year</u>	<u>Pension Expense Under GASB 68</u>	<u>Pension Contributions</u>	<u>Difference</u>
2018	\$ 2,075,329	\$ 1,474,711	\$ (600,618)
2019	1,896,389	1,400,000	(496,389)

# DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)  
June 30, 2019

## 8) SETTLEMENT PAYABLE

In fiscal year 2011, DTC entered into a legal settlement, payable over multiple years through March 31, 2020. In addition, as stated in Note 11, DTC has one ongoing contingent lawsuit. The amount due in one year is classified as a current liability and is included in Accounts and Contracts Payable in the accompanying Statement of Net Position.

	<u>2019</u>	<u>2018</u>
Settlement Payable	\$ 235,520	\$ 287,360
Less: Current Portion	<u>(35,520)</u>	<u>(49,920)</u>
Long-Term Portion	<u>\$ 200,000</u>	<u>\$ 237,440</u>

## 9) OPERATING LEASE

In 2013, DTC entered into a lease agreement with Buhl Building LLC for office space under a non-cancelable operating lease. Future minimum lease payments are scheduled as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2020	<u>81,396</u>
<b>Total</b>	<b><u>\$ 81,396</u></b>

## 10) BUDGETARY DATA

### Budgeting Policies

DTC's yearly budget is presented to the City's Budget department for review and a determination of the annual subsidy for the ongoing operations and maintenance of the Detroit People Mover.

Generally, DTC meets with the City Budget Department during the month of February each year to justify the budget submitted. Shortly thereafter, the Budget Department will inform DTC on their recommendation for the total subsidy that will be forwarded to the Mayor. Before the budget hearing with the Mayor that is usually conducted in April, DTC submits additional justification to support the items not approved by the Budget. A date will be set for the City Council budget hearing with DTC, which usually falls in May. DTC's budget approved by the City Council represents the final allocation for the fiscal year.

DTC then prepares an Operations and Maintenance Agreement with the Detroit Department of Transportation (DDOT) for the Subsidy Agreement for the fiscal year. DTC Budget is passed through DDOT.

# **DETROIT TRANSPORTATION CORPORATION**

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**Notes to Financial Statements (Continued)**  
**June 30, 2019**

## **11) COMMITMENTS & CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Corporation expects such amounts, if any, to be immaterial.

DTC is a defendant in a case which is still ongoing. The estimated contingency ranges from \$300,000 to \$400,000. Although, this outcome does not reach the level of probability, a liability in the amount of \$200,000, has been recorded as of June 30, 2019 for this lawsuit.

## **12) SUBSEQUENT EVENT**

DTC has evaluated subsequent events through November 30, 2019, the date that the accompanying financial statements were available to be issued. There was no event requiring recognition in the financial statements.



**REQUIRED SUPPLEMENTARY INFORMATION**

# DETROIT TRANSPORTATION CORPORATION

## Required Supplementary Information Schedule of Employer Contribution Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Contribution	\$ 1,156,401	\$ 1,221,918	\$ 1,191,745	\$ 767,034	\$ 746,024	\$ 652,890	\$ 612,104	\$ 524,116	\$ 717,494	\$ 692,277
Actual Contributions in Relation to the										
Actuarially Determined Contribution	1,400,000	1,474,711	867,034	1,298,914	686,492	699,166	597,749	524,116	647,749	531,752
Contribution Deficiency (Excess)	\$ (243,599)	\$ (252,793)	\$ 324,711	\$ (531,880)	\$ 59,532	\$ (46,276)	\$ 14,355	\$ -	\$ 69,745	\$ 160,525
Covered Employee Payroll	\$ 7,184,605	\$ 7,363,912	\$ 6,966,600	\$ 5,914,288	\$ 5,405,616	\$ 5,197,708	\$ 4,746,860	\$ 4,321,705	\$ 3,987,827	\$ 5,115,793
Actual Contributions as a Percentage of										
Covered Employee Payroll	19.49%	20.03%	12.44%	21.96%	12.70%	13.45%	12.59%	12.13%	16.24%	10.39%

### ACTUARIAL ASSUMPTIONS

The information in the actuarial accrued liability measure was computed as part of an actuarial valuation performed as of July 1, 2017.

Significant actuarial assumptions used in the valuation are as follows:

Valuation Date	July 1, 2018
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage-of-Payroll, Open
UAAL Amortization Period	30 Years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumption:	
Investment Rate of Return	6.25%
Projected Salary Increase	3.00 to 7.90% including inflation
Includes Price Inflation at	2.50%

These assumptions are unchanged from prior valuation.

# DETROIT TRANSPORTATION CORPORATION

## Required Supplementary Information Schedule of Changes in Net Pension Liability and Related Ratios Last Five Fiscal Years

	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>					
Service Cost	\$ 864,941	\$ 953,656	\$ 758,467	\$ 556,895	\$ 518,459
Interest on Total Pension Liability	1,461,635	1,376,961	1,224,626	1,141,879	1,058,048
Difference between Expected and Actual Experience	(793,435)	(535,083)	203,327	4,864	-
Assumption Changes	364,195	(301,246)	1,674,853	943,245	352,790
Benefit Payments	(490,022)	(363,233)	(366,480)	(268,543)	(316,996)
Net Change in Total Pension Liability	1,407,314	1,131,055	3,494,793	2,378,340	1,612,301
<b>Total Pension Liability - Beginning</b>	<b>24,213,797</b>	<b>23,082,742</b>	<b>19,587,949</b>	<b>17,209,609</b>	<b>15,597,308</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 25,621,111</b>	<b>\$ 24,213,797</b>	<b>\$ 23,082,742</b>	<b>\$ 19,587,949</b>	<b>\$ 17,209,609</b>
<b>Plan Fiduciary Net Position</b>					
Contributions- Employer	\$ 1,400,000	\$ 1,474,711	\$ 867,034	\$ 1,298,914	\$ 686,492
Net Investment Income (Loss)	553,235	1,120,754	1,417,128	(136,077)	434,395
Benefit Payments	(490,022)	(363,233)	(366,480)	(268,543)	(316,996)
Other	-	-	586	-	-
Net Change in Plan Fiduciary Net Position	1,463,213	2,232,232	1,918,268	894,294	803,891
<b>Plan Fiduciary Net Position - Beginning</b>	<b>16,416,919</b>	<b>14,184,687</b>	<b>12,266,419</b>	<b>11,372,125</b>	<b>10,568,234</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 17,880,132</b>	<b>\$ 16,416,919</b>	<b>\$ 14,184,687</b>	<b>\$ 12,266,419</b>	<b>\$ 11,372,125</b>
<b>Net Pension Liability - Ending (a)-(b)</b>	<b>\$ 7,740,979</b>	<b>\$ 7,796,878</b>	<b>\$ 8,898,055</b>	<b>\$ 7,321,530</b>	<b>\$ 5,837,484</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>69.79%</b>	<b>67.80%</b>	<b>61.45%</b>	<b>62.62%</b>	<b>66.08%</b>
<b>Covered Employee Payroll</b>	<b>\$ 7,184,605</b>	<b>\$ 7,363,912</b>	<b>\$ 6,966,600</b>	<b>\$ 5,914,288</b>	<b>\$ 5,405,616</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>107.74%</b>	<b>105.88%</b>	<b>127.72%</b>	<b>123.79%</b>	<b>107.99%</b>