

**DETROIT TRANSPORTATION CORPORATION**

**FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2014**

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the Detroit Transportation Corporation (DTC), a component unit of the City of Detroit, as of and for the year ended June 30, 2014, 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. 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 purposes 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DTC as of June 30, 2014, 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.

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

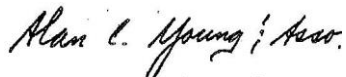
**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and retirement system schedule 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 have also issued our report dated December 30, 2014, 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 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.



Detroit, Michigan  
December 30, 2014

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

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, 2014. 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.

### INTRODUCTION

The financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows. These statements are supported by the notes to the financial statements, Management Discussion & Analysis (MD&A), and Required Supplementary Information other than MD&A.

### FINANCIAL HIGHLIGHTS

The assets of DTC exceeded its liabilities at June 30, 2014 by \$51.9 million (net position).

The operating loss decreased by \$6,538,321 from \$13,599,309 for the year ended June 30, 2013 to \$7,060,988 for the year ended June 30, 2014. This was mainly due to the fact that the City of Detroit provided DTC a subsidy of \$6.9 million for fiscal year 2014 while none was provided for fiscal year 2013.

Per the statement of net position, DTC had \$3,165,832 of its net assets restricted for beam maintenance which is currently invested in Comerica Bank and recorded at its fair value as of June 30, 2014.

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 discussion and analysis is intended to serve as information regarding DTC's basic financial statements. Since DTC is comprised of a single enterprise fund, no fund level financial statements are shown.

**Basic Financial Statements** – These are designed to provide the readers with a broad overview of DTC's finances, in a manner similar to a private sector business. The statement of net position presents the information about DTC's assets and liabilities and the difference between the two is reported as net position. The statement of revenues, expenses and changes in net position presents the revenues earned and expenses incurred during the year on an accrual basis.

# Detroit Transportation Corporation

## Management Discussion & Analysis (Continued) Year Ended June 30, 2014

**Notes to Financial Statements** – The notes provide additional information which is essential for understanding of the data provided in the basic financial statements.

**Required Supplementary Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning DTC's retirement system.

**Statement of Net Position** – Presented below are the condensed net position (the detailed financial statement is provided on pages 8 and 9):

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current Assets	\$ 7,261,543	\$ 5,425,176
Restricted Assets	3,165,832	2,862,151
Unrestricted Assets (Beam Drawdown Agreement)	289,380	473,289
Capital Assets Net of Accumulated Depreciation	47,030,201	51,665,817
<b>Total Assets</b>	<b>57,746,956</b>	<b>60,426,433</b>
<b>Liabilities</b>		
Current Liabilities	5,272,526	4,677,139
Long-Term Liabilities	576,453	621,495
Unearned Revenue	6,362	374,000
<b>Total Liabilities</b>	<b>5,855,341</b>	<b>5,672,634</b>
<b>Net Position</b>		
Unrestricted	1,695,582	225,831
Invested in Capital Assets, Net of Related Debt	47,030,201	51,665,817
Restricted for Beam Maintenance	3,165,832	2,862,151
<b>Total Net Position</b>	<b>\$ 51,891,615</b>	<b>\$ 54,753,799</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 exceeded liabilities by \$51.9 million at the close of fiscal year 2014.

# Detroit Transportation Corporation

## Management Discussion & Analysis (Continued) June 30, 2014

**Statement of Activities** – Presented below is the condensed activities for the years ended June 30, 2014 and 2013 (the detailed financial statement is presented on page 10):

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Charges for Sales and Services: Ticket Sales	\$ 1,688,923	\$ 1,556,301
Intergovernmental - Other Transit Revenue	7,257,591	292,237
Intergovernmental - State of Michigan	<u>3,968,346</u>	<u>3,546,366</u>
<b>Total Operating Revenues</b>	<u><u>12,914,860</u></u>	<u><u>5,394,904</u></u>
<b>Operating Expenses</b>		
Administration	(12,989,257)	(11,974,921)
Depreciation	<u>(6,986,591)</u>	<u>(7,019,292)</u>
<b>Total Operating Expenses</b>	<u><u>(19,975,848)</u></u>	<u><u>(18,994,213)</u></u>
<b>Operating Loss</b>	<u>(7,060,988)</u>	<u>(13,599,309)</u>
<b>Non Operating Revenues/Expenses</b>		
Investment Income (Loss)	450,236	(110,392)
Grant, Bond and Other Revenues	<u>3,748,568</u>	<u>2,274,675</u>
<b>Net Non Operating Revenues</b>	<u>4,198,804</u>	<u>2,164,283</u>
Change in Net Position	(2,862,184)	(11,435,026)
Net Position, Beginning of Year	<u>54,753,799</u>	<u>66,188,825</u>
<b>Net Position, End of Year</b>	<u><u>\$ 51,891,615</u></u>	<u><u>\$ 54,753,799</u></u>

**Analysis of Statement of Activities** – DTC's net position decreased by \$2.9 million during the current fiscal year.



# Detroit Transportation Corporation

## Management Discussion & Analysis (Continued) June 30, 2014

### BUDGETARY HIGHLIGHTS

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		Positive/ (Negative)
<b>Revenues:</b>				
Ticket & Token Sales	\$ 1,683,917	\$ 1,683,917	\$ 1,688,923	\$ 5,006
FTA Grant	2,500,000	2,500,000	2,712,552	212,552
MDOT Rail Grant Revenue	400,000	400,000	413,073	13,073
SEMCOG Grant Revenue	74,400	74,400	74,400	-
Misc. Revenue & Rental Income	56,000	56,000	95,632	39,632
Investment Income	450,000	450,000	450,236	236
Advertising Revenue	325,000	325,000	337,275	12,275
City Bond Revenue	522,413	522,413	115,636	(406,777)
City Subsidy	7,200,000	7,200,000	7,257,591	57,591
State Operating Assistance	3,590,000	3,590,000	3,968,346	378,346
<b>Total Revenues</b>	<b>\$ 16,801,730</b>	<b>\$ 16,801,730</b>	<b>\$ 17,113,664</b>	<b>\$ 311,934</b>
<b>Expenditures:</b>				
Cost of Sales & Services				
Administration	\$ 11,998,962	\$ 11,998,962	\$ 12,989,257	\$ 990,295
Depreciation	6,984,380	6,984,380	6,986,591	2,211
<b>Total Expenditures</b>	<b>\$ 18,983,342</b>	<b>\$ 18,983,342</b>	<b>\$ 19,975,848</b>	<b>\$ 992,506</b>

### CAPITAL ASSETS

DTC's investment in capital assets was \$47,030,201 net of accumulated depreciation as of June 30, 2014, a decrease of 8.9% 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 2-B to the basic financial statements.

### 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 assets when the related qualified expenditures are incurred.

# Detroit Transportation Corporation

## Statement of Net Position Proprietary Fund June 30, 2014

### **ASSETS**

#### **Current Assets:**

Cash & Cash Equivalents (Notes 1 & 2)	\$ 262,389
Investments (Note 2)	501,467
Accounts Receivable	92,487
Inter-Governmental Receivables (Note 2)	2,861,557
Inventories	3,411,282
Prepaid Expenses and Other	421,741

**Total Current Assets** 7,550,923

#### **Non Current Assets (Note 2):**

Restricted Investments	<u>3,165,832</u>
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#### **Capital Assets (Note 2):**

Land	5,122,237
Artwork	1,986,000
Transportation Equipment & Structures	212,408,004
Capital Work in Process	2,559,756
Other Equipment	5,612,058
Furniture and Fixture	515,411
Auto	85,221
Less: Accumulated Depreciation	<u>(181,258,486)</u>

**Total Capital Assets (Net of Accumulated Depreciation)** 47,030,201

**Total Non Current Assets** 50,196,033

**Total Assets** \$ 57,746,956

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

# Detroit Transportation Corporation

## Statement of Net Position (Continued) Proprietary Fund June 30, 2014

### **LIABILITIES AND NET POSITION**

#### **Current Liabilities Payable from Current Assets:**

Accounts & Contracts Payable	\$ 3,693,640
Accrued Salaries & Wages	136,219
Accrued Pension Payable	1,039,538
Other Payables (Note 2)	403,129
Unearned Revenue	<u>6,362</u>

**Total Current Liabilities** 5,278,888

#### **Long-Term Liabilities:**

Accrued Compensated Absences	277,217
Settlement Payable	<u>299,236</u>
<b>Total Long-Term Liabilities</b>	<u>576,453</u>

**Total Liabilities** 5,855,341

#### **NET POSITION**

Unrestricted	1,695,582
Net Investment in Capital Assets	47,030,201
Restricted for Beam Maintenance	<u>3,165,832</u>

**Total Net Position** 51,891,615

**Total Liabilities and Net Position** \$ 57,746,956

*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, 2014

	Unrestricted Net Position	Temporarily Restricted Net Position	Total
<b>Operating Revenues:</b>			
<b>State</b>			
Intergovernmental - State of Michigan	\$ 3,968,346	\$ -	\$ 3,968,346
<b>Local</b>			
Intergovernmental - Other Transit Revenue	7,257,591	-	7,257,591
Charges for Sales and Services: Ticket Sales	1,688,923	-	1,688,923
<b>Total Operating Revenues</b>	<u>12,914,860</u>	<u>-</u>	<u>12,914,860</u>
<b>Costs of Sales and Services:</b>			
Administration	12,989,257	-	12,989,257
Depreciation	6,986,591	-	6,986,591
<b>Total Operating Expenses</b>	<u>19,975,848</u>	<u>-</u>	<u>19,975,848</u>
Operating Loss	(7,060,988)	-	(7,060,988)
<b>Non-Operating Revenues:</b>			
<b>Federal</b>			
FTA Grant Revenue	2,712,552	-	2,712,552
SEMCOG Grant	74,400	-	74,400
<b>State</b>			
MDOT Rail Grant	413,073	-	413,073
<b>Local</b>			
City of Detroit - Bond	115,636	-	115,636
Interest Income	3,181	43,827	47,008
Rental Income	24,008	-	24,008
Misc. Revenue	71,624	-	71,624
Advertising Income	337,275	-	337,275
Net Realized Gain on Investments	3,324	28,721	32,045
Net Unrealized Loss/Gain on Investments	(5,982)	377,165	371,183
<b>Net Position Released from Restrictions</b>			
Restrictions Satisfied with the Incurrence of Expenses from Beam Maintenance	146,032	(146,032)	-
<b>Total Nonoperating Revenue</b>	<u>3,895,123</u>	<u>303,681</u>	<u>4,198,804</u>
Change in Net Position	(3,165,865)	303,681	(2,862,184)
<b>Net Position - Beginning of Year</b>	<u>51,891,648</u>	<u>2,862,151</u>	<u>54,753,799</u>
<b>Net Position - End of Year</b>	<u>\$ 48,725,783</u>	<u>\$ 3,165,832</u>	<u>\$ 51,891,615</u>

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

# Detroit Transportation Corporation

## Statement of Cash Flows Proprietary Fund Year Ended June 30, 2014

### CASH FLOWS FROM OPERATIONS

Receipts from Customers	\$ 1,688,923
Cash Receipts from State of Michigan	4,546,556
Cash Receipts from City of Detroit	4,609,798
Cash Receipts from Federal	2,786,954
Payments to Suppliers	(4,400,201)
Payments to Employees	(7,262,309)
Payment of Accrued Pension	(699,166)
Accrued Compensated Absences	4,878
Other Operating Cash Receipts (Payments)	830,519
<b>Net Cash Provided by Operating Activities</b>	<u>2,105,952</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Change in Capital Assets	(2,352,576)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(2,352,576)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Restricted Investment, Net	(303,681)
Investment, Net	236,348
Investment income	47,008
<b>Net Cash Used in Investing Activities</b>	<u>(20,325)</u>

Net Decrease in Cash and Cash Equivalents	(266,949)
Cash and Cash Equivalents, Beginning of Year	529,338
Cash and Cash Equivalents, End of Year	<u>\$ 262,389</u>

### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	(7,060,988)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities	
Depreciation and Amortization	6,986,591
Other Income	4,151,796
Loss On Sale of Assets	1,601
Change in Accounts Receivable	397,612
Change in Due from Inter-Governmental Receivables	(2,479,149)
Change in Prepaid Expenses	(148,692)
Change in Inventories	74,474
Change in Accounts & Contracts Payable	377,097
Change in Other Payables	180,380
Change in Accrued Salaries Payable	34,266
Change in Accrued Pension Payable	(46,276)
Change in Accrued Compensated Absences	4,878
Change in Deferred Revenue	(367,638)
<b>Total Adjustment</b>	<u>9,166,940</u>

<b>Net Cash Provided by Operating Activities</b>	<u>\$ 2,105,952</u>
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*The accompanying notes are an integral part of these financial statements.*

## 1) 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 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.

### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund type operating statements present increases (i.e., revenues) and decrease (i.e., expenses) in net total position.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position are available, DTC's policy is to first apply restricted resources.

### 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.

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Investments

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 in accordance with GASB relative to *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

### Definition of Operating Activities

DTC considers operating revenues and expenses to be those that result from activities related to the operations of DTC. Such operating revenue includes the receipts generated from operating and maintaining the Downtown People Mover.

### Statement of Cash Flows

For purposes of reporting cash flows, DTC considers "cash" as cash on deposit in financial institutions.

### Inventory

Inventory consists of spare parts and is valued at cost or realizable value whichever is less.

## 2) ASSETS, LIABILITIES AND NET ASSETS

### (A) Cash and Investments

Cash consists of checking accounts, money market accounts, and cash-on-hand. At June 30, 2014, DTC had a deposit balance of \$339,045 (excluding outstanding checks and deposits in transit) that was insured through the Federal Deposit Insurance Corporation, and \$69,280 that was not insured.

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.

### 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.

# Detroit Transportation Corporation

Notes to Financial Statements (Continued)  
June 30, 2014

## 2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

### Concentration of Credit Risk

DTC's policy minimizes concentration of credit risk by; and, 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:

	<u>Rating</u>	<u>Cost</u>	<u>Fair Value</u>
<i>Rating Organization : Standards &amp; Poor's Rating and Moody's Rating</i>			
Cash & Cash Equivalents	None	\$ 239,512	\$ 239,512
<b>Fixed Income</b>			
<b>Treasuries</b>			
US Treasury Bond	AAA/Aaa	473,091	569,630
<b>U.S. Agencies</b>			
Federal Funding Corporation	AAA/Aaa	112,792	1,356,057
Financing Corp., 10.7%, 10/06/17	NR/Aaa	15,589	13,071
<b>Equities</b>			
Mutual Funds	Unrated	1,121,028	1,486,121
Accrued Interest		<u>2,908</u>	<u>2,908</u>
<b>Total</b>		<u>\$ 1,964,920</u>	<u>\$ 3,667,299</u>
<b>Restricted Cash &amp; Investments</b>			<b>\$ 3,165,832</b>
<b>Unrestricted Cash &amp; Investments</b>			<b>\$ 501,467</b>

### 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.



2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

(B) Property, Plant & Equipment & Depreciation

Property, plant and equipment are stated at cost. 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
Train Control Upgrading	17 Years
Power Rail Heat Tape	10 Years

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

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2014</u>
Capital Assets not being Depreciated:				
Land	\$ 5,122,237	\$ -	\$ -	\$ 5,122,237
Capital Work in Process	2,744,963	2,327,740	(2,512,947)	2,559,756
<b>Total Assets not being Depreciated</b>	<u>7,867,200</u>	<u>2,327,740</u>	<u>(2,512,947)</u>	<u>7,681,993</u>
Capital Assets being Depreciated:				
Artwork	1,986,000	-	-	1,986,000
Transportation Equipment & Structure	209,908,514	2,512,947	(13,457)	212,408,004
Other Equipment	5,612,058	-	-	5,612,058
Furniture & Fixture	515,411	-	-	515,411
Auto	60,385	24,836	-	85,221
<b>Total Assets being Depreciated</b>	<u>218,082,368</u>	<u>2,537,783</u>	<u>(13,457)</u>	<u>220,606,694</u>
<b>Total Capital Assets</b>	225,949,568	4,865,523	(2,526,404)	228,288,687
Accumulated Depreciation:				
Artwork	1,668,240	-	-	1,668,240
Transportation Equipment & Structure	166,737,385	6,797,337	(11,856)	173,522,866
Other Equipment	5,340,801	169,807	-	5,510,608
Furniture & Fixture	489,436	14,488	-	503,924
Auto	47,889	4,959	-	52,848
<b>Subtotal</b>	<u>174,283,751</u>	<u>6,986,591</u>	<u>(11,856)</u>	<u>181,258,486</u>
Net Capital Assets being Depreciated	<u>43,798,617</u>	<u>(4,448,808)</u>	<u>(1,601)</u>	<u>39,348,208</u>
<b>Net Capital Assets</b>	<u>\$ 51,665,817</u>	<u>\$ (2,121,068)</u>	<u>\$ (2,514,548)</u>	<u>\$ 47,030,201</u>

Change in Estimate

During fiscal year 2013, DTC reevaluated the estimated useful life of the Artwork and a residual value of approximately 15% was determined. As such, no depreciation was charged for fiscal year 2014. Depreciation expense of \$79,440 was charged each year until June 30, 2012. During fiscal year 2014, fixed assets of \$13,457 were disposed resulting in a loss of \$1,601.

# Detroit Transportation Corporation

Notes to Financial Statements (Continued)  
June 30, 2014

## 2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

### (C) Inter Governmental Receivables

At June 30, 2014, Inter Governmental receivables were as follows:

City of Detroit - Subsidy	\$	2,704,929
City of Detroit - Transit Safety		120,256
SEMCOG		36,372
<b>Total</b>	<b>\$</b>	<b><u>2,861,557</u></b>

### (D) State Operating Assistance Grant

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 ending June 30, 2014 amounted to \$3,741,115.

For prior years, DTC received amount in excess of the calculated operating assistance. This is reflected in 'Other Payables' in the accompanying statement of net position on page 9.

### (E) Deferred Compensation Plan

Detroit Transportation Corporation 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.

### (F) 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.

### 2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

#### (F) Beam Maintenance (Continued)

DTC obtained a settlement with UTDC amounting to \$3,000,000, and DTC assumed responsibility for all beam maintenance. Such amount was invested and is reflected as a restricted asset. Pursuant to the Beam Escrow Drawdown Agreement executed on December 14, 2011, DTC obtained approvals to drawdown funds from this account to be used for operations. A total of \$3,400,000 for fiscal year 2012 and \$6,200,000 for fiscal year 2013 was approved. These amounts were released from restrictions in fiscal year 2012.

#### (G) Defined Benefit Pension Plan

**Plan Description** – DTC contributes to the Detroit Transportation Corporation Employees' Retirement Plan (the 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.

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.

**Annual Pension Cost and Assumptions** – For the year ended June 30, 2014 DTC's annual pension cost was \$652,890. The annual required contribution of \$652,890 was determined as part of an actuarial valuation at July 1, 2013, the latest actuarial valuation, using the Projected Unit Credit Method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4% per year. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level - percentage of payroll. The remaining amortization period is 30 years.

2) ASSETS, LIABILITIES AND NET ASSETS (Continued)

(G) Defined Benefit Pension Plan (Continued)

Annual Pension Cost and Assumptions (Continued)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarial Value of Assets	8,391,882	9,052,482	9,906,131
Actuarial Accrued Liability (AAL)	9,695,456	11,013,838	11,827,650
Unfunded AAL (UAAL)	1,303,574	1,961,356	1,921,519
Funded Ratio	86.60%	82.20%	83.80%
Covered Payroll	3,987,827	4,321,705	4,746,860
UAAL as a Percentage of Covered Payroll	32.70%	45.40%	40.50%

	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2012	524,116	100%
2013	612,104	100%
2014	652,890	0%

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, 2013 and 2012. The minimum required contribution for 2014 and 2013 consisted of normal costs of \$652,890 and \$612,104 respectively, (approximately 13.48% and 13.89%, respectively, of current covered payroll per actuary report) plus interest on the normal costs. DTC contributed \$699,166 and \$597,749 during fiscal year 2014 and 2013, respectively.

(H) Commitments & Contingencies

DTC is self-insured for up to \$5 million under their general liability insurance policy.

# Detroit Transportation Corporation

Notes to Financial Statements (Continued)  
June 30, 2014

## 2) ASSETS, LIABILITIES AND NET POSITION (Continued)

### (I) Net Position

Business type financial statements use net position presentation. Net position is categorized as follows:

1. Net Investment in Capital Assets – Consists of capital assets net of accumulated depreciation. This amount would further be reduced by the portion of debt attributable to those assets.
2. Permanently Restricted – Subject to donor-imposed stipulations that they be maintained permanently by DTC. The donors of these assets permit DTC to use all or part of the income earned on related investments for general or specific purposes. DTC does not have any permanently restricted net assets.
3. Temporarily Restricted – Subject to donor-imposed stipulations that can be met either by actions of DTC and/or the passage of time.
4. Unrestricted – Consists of unrestricted assets which the Corporation's management can use for various purposes.

### (J) 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.

### (K) Long Term Liabilities

In FY 2011, DTC entered into a legal settlement, payable over the next 7 years. The amount due in one year is classified as current liability and is included in Accounts and Contracts Payable in the accompanying Statement of Net Position. Subsequent to the year end, DTC entered into a legal settlement of \$87,500 for one of its legal cases. The total amount is due in the year 2014, and is classified as current liability.

	<u>2014</u>	<u>2013</u>
Settlement Payable	\$ 436,656	\$ 399,076
Less: Current Portion	<u>(137,420)</u>	<u>(49,920)</u>
Long-Term Settlement Payable	<u>\$ 299,236</u>	<u>\$ 349,156</u>

## 3) 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.

## 4) CONTINGENT LIABILITIES

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 defendant in lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of DTC's counsel that resolution of these matters will not have a material adverse effect on the financial condition of DTC.

## 5) NEW ACCOUNTING PRONOUNCEMENT

GASB issued standard No. 68 – Accounting and Financial Reporting for Pensions which will be applicable for year ended June 30, 2015. Statement 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The objective of this standard is to improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations.

**5) NEW ACCOUNTING PRONOUNCEMENT (Continued)**

Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Two of the major changes are the required use of the Entry Age Normal actuarial cost method and the use of a blended discount rate which will likely be lower than 7% given the DTC's 30-year open amortization policy. Note the GASB's new disclosures under these methods will produce a second set of financial results for the plan and DTC separate from the funding calculations.

**6) SUBSEQUENT EVENT**

DTC has evaluated subsequent events through December 30, 2014 the date that the accompanying financial statements were available to be issued. Except as mentioned in Note 2K, Subsequent to the year end, there was no other event requiring recognition in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**



# Detroit Transportation Corporation

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Required Supplementary Information  
Retirement System Schedule  
Year Ended June 30, 2014

## SCHEDULE OF EMPLOYER CONTRIBUTION:

<u>Year Ended June 30</u>	<u>Annual Recommended Contributions</u>	<u>Percentage Contributed</u>
1998	\$147,567	100%
1999	\$148,122	100%
2000	\$160,712	100%
2001	\$168,538	100%
2002	\$210,220	100%
2003	\$347,322	100%
2004	\$326,258	100%
2005	\$365,020	100%
2006	\$279,342	100%
2007	\$633,061	100%
2008	\$552,782	100%
2009	\$589,749	100%
2010	\$692,277	100%
2011	\$717,494	100%
2012	\$524,116	100%
2013	\$612,104	100%
2014	\$652,890	0%

# Detroit Transportation Corporation

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## Required Supplementary Information Retirement System Schedule (Continued) Year Ended June 30, 2014

### ACTUARIAL ASSUMPTIONS

The information in the actuarial accrued liability measure was computed as part of an actuarial valuation performed as of July 1, 2013.

Significant actuarial assumptions used in the valuation are as follows:

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent
UAAL Amortization Period	30 years open
Asset Valuation Method	5 year Smoothed Market
Actuarial Assumption:	
Investment Rate of Return	7.00%
Projected Salary Increase	4.00%
Includes Price Inflation at Cost-of-living Adjustments	3.00%
	None

These assumptions are unchanged from prior valuation.

# Detroit Transportation Corporation

## Required Supplementary Information Retirement System Schedule (Continued) Year Ended June 30, 2014

### THREE –YEAR TREND INFORMATION

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarial Value of Assets	8,391,882	9,052,482	9,906,131
Actuarial Accrued Liability (AAL)	9,695,456	11,013,838	11,827,650
Unfunded AAL (UAAL)	1,303,574	1,961,356	1,921,519
Funded Ratio	86.60%	82.20%	83.80%
Covered Payroll	3,987,827	4,321,705	4,746,860
UAAL as a Percentage of Covered Payroll	32.70%	45.40%	40.50%

	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2012	524,116	100%
2013	612,104	100%
2014	652,890	0%