

DETROIT TRANSPORTATION CORPORATION

FINANCIAL REPORT

JUNE 30, 2015

DETROIT TRANSPORTATION CORPORATION

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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, as of and for the year ended June 30, 2015, 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 as of June 30, 2015, 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.

Change in Accounting Principle

As described in Note 1, DTC implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

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, 2015, 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.

Alan C. Young; Assoc.

Detroit, Michigan
December 30, 2015

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

DETROIT TRANSPORTATION CORPORATION

**Management Discussion & Analysis
June 30, 2015**

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, 2015. 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 and deferred outflows of DTC exceeded its liabilities at June 30, 2015 by \$44.7 million (net position).

The operating loss increased by \$137,125 from \$7,060,988 for the year ended June 30, 2014 to \$7,198,113 for the year ended June 30, 2015. This was mainly due to the fact that the City of Detroit provided DTC a subsidy of \$6.5 million for fiscal year 2014 while \$6.9 million was provided for fiscal year 2014.

Per the statement of net position, DTC had \$3,468,822 of its net assets 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 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, 2015

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):

Assets	2015	2014
Current Assets	\$ 8,945,575	\$ 7,550,923
Restricted Assets	2,758,202	3,165,832
Capital Assets Net of Accumulated Depreciation	41,921,893	47,030,201
Total Assets	53,625,670	57,746,956
Deferred Outflows of Resources		
Pension Cost Deferred	529,127	-
	54,154,797	57,746,956
Liabilities		
Current Liabilities	2,980,878	5,272,526
Long-Term Liabilities	593,161	576,453
Pension Liability	5,837,484	5,029,074
Unearned Revenue	-	6,362
Total Liabilities	9,411,523	10,884,415
Net Position		
Unrestricted	(647,441)	(2,293,954)
Net Investment in Capital Assets	41,921,893	47,030,201
Restricted for Beam Maintenance	3,468,822	3,165,832
Total Net Position	\$ 44,743,274	\$ 47,902,079

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 by \$44.7 million at the close of fiscal year 2015.

DETROIT TRANSPORTATION CORPORATION

Management Discussion & Analysis (Continued) June 30, 2015

Statement of Activities – Presented below is the condensed activities for the years ended June 30, 2015 and 2014 (the detailed financial statement is presented on page 10):

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Charges for Sales and Services: Ticket Sales	\$ 1,453,456	\$ 1,688,923
Intergovernmental - Other Transit Revenue	9,353,594	7,257,591
Intergovernmental - State of Michigan	4,332,786	3,968,346
Total Operating Revenues	<u>15,139,836</u>	<u>12,914,860</u>
Operating Expenses		
Administration	(15,548,538)	(12,989,257)
Depreciation	(6,789,411)	(6,986,591)
Total Operating Expenses	<u>(22,337,949)</u>	<u>(19,975,848)</u>
Operating Loss	<u>(7,198,113)</u>	<u>(7,060,988)</u>
Non Operating Revenues/Expenses		
Investment Income (Loss)	304,070	450,236
Grant, Bond and Other Revenues	3,735,238	3,748,568
Net Non Operating Revenues	<u>4,039,308</u>	<u>4,198,804</u>
Change in Net Position	(3,158,805)	(2,862,184)
Net Position, Beginning of Year, as restated	<u>47,902,079</u>	<u>50,764,263</u>
Net Position, End of Year	<u>\$ 44,743,274</u>	<u>\$ 47,902,079</u>

Analysis of Statement of Activities – DTC's net position decreased by \$3.2 million during the current fiscal year.

DTC implemented GASB 68 in the current year. In addition to expanded disclosure requirements, DTC is required to report its net pension liability on the statement of net position.

DETROIT TRANSPORTATION CORPORATION

Management Discussion & Analysis (Continued)
June 30, 2015

BUDGETARY HIGHLIGHTS

	Budgeted Amounts		Actual	Variance Positive/ (Negative)
	Original	Final		
Revenues:				
Ticket & Token Sales	\$ 1,480,000	\$ 1,480,000	\$ 1,453,456	\$ (26,544)
FTA Grant	1,500,000	1,500,000	1,656,277	156,277
FTA Planning Grant	100,000	100,000	134,152	34,152
MDOT Rail Grant Revenue	400,000	400,000	175,918	(224,082)
SEMCOG Grant Revenue	74,400	74,400	74,400	-
Misc. Revenue & Rental Income	44,500	44,500	1,661,056	1,616,556
Advertising Revenue	350,000	350,000	337,505	(12,495)
City Subsidy - Transit Police	3,100,000	3,100,000	2,853,594	(246,406)
City Subsidy	6,500,000	6,500,000	6,500,000	-
State Operating Assistance	4,900,000	4,900,000	4,332,786	(567,214)
Total Revenues	\$ 18,448,900	\$ 18,448,900	\$ 19,179,144	\$ 730,244
Expenditures:				
Cost of Sales & Services				
Administration	\$ 16,226,120	\$ 16,226,120	\$ 15,548,538	\$ 677,582
Depreciation	6,967,830	6,967,830	6,789,411	178,419
Total Expenditures	\$ 23,193,950	\$ 23,193,950	\$ 22,337,949	\$ 856,001

CAPITAL ASSETS

DTC's net investment in capital assets was \$41,921,893 net of accumulated depreciation as of June 30, 2015, a decrease of 10.9% 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 3 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 position when the related qualified expenditures are incurred.

DETROIT TRANSPORTATION CORPORATION

Statement of Net Position
Proprietary Fund
June 30, 2015

ASSETS

Current Assets:

Cash & Cash Equivalents (Note 2)	\$ 2,153,761
Investments (Note 2)	145,540
Accounts Receivable, Net	87,842
Inter-Governmental Receivables (Note 4)	2,759,621
Inventories	3,345,214
Prepaid Expenses and Other	453,597

Total Current Assets 8,945,575

Non Current Assets (Note 2):

Restricted Investments	<u>2,758,202</u>
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Capital Assets (Note 3):

Land	3,838,396
Artwork	1,986,000
Transportation Equipment & Structures	217,658,132
Capital Work in Process	259,429
Other Equipment	5,622,748
Furniture and Fixture	519,864
Auto	85,221
Less: Accumulated Depreciation	<u>(188,047,897)</u>

Total Capital Assets (Net of Accumulated Depreciation) 41,921,893

Total Non Current Assets 44,680,095

Total Assets 53,625,670

Deferred Outflow of Resources

Pension Cost Deferred (Note 7)	<u>529,127</u>
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Total Assets and Deferred Outflow of Resources \$ 54,154,797

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

DETROIT TRANSPORTATION CORPORATION

Statement of Net Position (Continued)
Proprietary Fund
June 30, 2015

LIABILITIES AND NET POSITION

Current Liabilities Payable from Current Assets:

Accounts & Contracts Payable	\$	2,052,642
Accrued Salaries & Wages		159,641
Other Payables		768,595
Total Current Liabilities		<u>2,980,878</u>

Long-Term Liabilities:

Accrued Compensated Absences		343,624
Net Pension Liability (Note 7)		5,837,484
Settlement Payable (Note 9)		249,537
Total Long-Term Liabilities		<u>6,430,645</u>

Total Liabilities		<u>9,411,523</u>
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NET POSITION

Unrestricted		(647,441)
Net Investment in Capital Assets		41,921,893
Restricted for Beam Maintenance		3,468,822
		<u>44,743,274</u>

Total Net Position		<u>44,743,274</u>
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Total Liabilities and Net Position	\$	<u>54,154,797</u>
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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, 2015

	Unrestricted Assets	Temporarily Restricted Assets	Total
Operating Revenues:			
State			
Intergovernmental - State of Michigan	\$ 4,332,786	\$ -	\$ 4,332,786
Local			
Intergovernmental - Other Transit Revenue	9,353,594	-	9,353,594
Charges for Sales and Services: Ticket Sales	<u>1,453,456</u>	<u>-</u>	<u>1,453,456</u>
Total Operating Revenues	<u>15,139,836</u>	<u>-</u>	<u>15,139,836</u>
Costs of Sales and Services:			
Administration	15,548,538	-	15,548,538
Depreciation	<u>6,789,411</u>	<u>-</u>	<u>6,789,411</u>
Total Operating Expenses	<u>22,337,949</u>	<u>-</u>	<u>22,337,949</u>
Operating Loss	(7,198,113)	-	(7,198,113)
Non-Operating Revenues (Expenses):			
Federal			
FTA Grant Revenue	1,763,599	-	1,763,599
SEMCOG Grant	74,400	-	74,400
State			
MDOT Rail Grant	175,918	-	175,918
MDOT FTA Study and Planning Grant	26,830	-	26,830
Local			
Interest Income	1,080	67,190	68,270
Rental Income	17,287	-	17,287
Miscellaneous Revenue	1,700,891	-	1,700,891
Advertising Income	337,505	-	337,505
Net Realized Loss on Sale of Property	(361,192)	-	(361,192)
Net Realized Gain on Investments	-	1,470,858	1,470,858
Net Unrealized Loss on Investments	<u>-</u>	<u>(1,235,058)</u>	<u>(1,235,058)</u>
Total Nonoperating Revenue (Expenses)	<u>3,736,318</u>	<u>302,990</u>	<u>4,039,308</u>
Change in Net Position	(3,461,795)	302,990	(3,158,805)
Net Position - Beginning of Year, As Restated (Note 1)	<u>44,736,247</u>	<u>3,165,832</u>	<u>47,902,079</u>
Net Position - End of Year	<u>\$ 41,274,452</u>	<u>\$ 3,468,822</u>	<u>\$ 44,743,274</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, 2015

CASH FLOWS FROM OPERATIONS

Receipts from Customers	\$ 1,446,055
Cash Receipts from State of Michigan	5,100,627
Cash Receipts from City of Detroit	9,451,083
Cash Receipts from Federal	1,735,124
Payments to Suppliers	(8,280,520)
Payments to Employees	(7,617,467)
Payment of Accrued Pension	(686,492)
Payment of Accrued Compensated Absences	(350,099)
Other Operating Cash Receipts (Payments)	2,067,729
Net Cash Provided by Operating Activities	2,866,040

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Sale of Assets	922,649
Purchase of Capital Assets	(2,964,944)
Net Cash Used in Capital and Related Financing Activities	(2,042,295)

CASH FLOWS FROM INVESTING ACTIVITIES

Restricted Investment	643,430
Investment	355,927
Interest Income	68,270
Net Cash Provided by Investing Activities	1,067,627

Net Increase in Cash and Cash Equivalents	1,891,372
Cash and Cash Equivalents, Beginning of Year	262,389
Cash and Cash Equivalents, End of Year	\$ 2,153,761

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (7,198,113)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities	
Depreciation and Amortization	6,789,411
Unrealized (Gain) Loss	(235,800)
Other Income	3,971,038
Loss On Sale of Assets	361,192
Change in Accounts Receivable	4,645
Change in Due from Inter-Governmental Receivables	101,936
Change in Prepaid Expenses	(31,856)
Change in Inventories	66,068
Change in Pension Cost Deferred	(529,127)
Change in Accounts & Contracts Payable	(1,690,697)
Change in Other Payables	365,966
Change in Accrued Salaries Payable	23,422
Change in Accrued Pension Payable	808,410
Change in Accrued Compensated Absences	66,407
Change in Deferred Revenue	(6,862)
Total Adjustment	10,064,153

Net Cash Provided by Operating Activities	\$ 2,866,040
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The accompanying notes are an integral part of these financial statements.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements
June 30, 2015

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 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

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. DTC reports all activity in a single enterprise fund.

Basis of Accounting

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is 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, 2015

1) INCORPORATION, PRINCIPAL ACTIVITY, AND 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.

Inventory

Inventory consists of maintenance parts and repair parts, used in the operation of the transit system. Inventories are recorded at average 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.

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.

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. DTC has deferred outflows from the difference between projected and actual investment earnings of the pension plan.

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. DTC has no deferred inflows of resources.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

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

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.

Pension

DTC offers pension benefits to retirees. The Authority 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.

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 grants 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.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

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

Grant Activities – (Continued)

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.

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.

Adoption of New Standards

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflow of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The implementation of GASB 68 had the following effect:

Net Position June 30, 2014	\$ 51,891,615
Recognition of Net Pension Liabilities	<u>(3,989,536)</u>
Restated net position, June 30, 2014	<u><u>\$ 47,902,079</u></u>

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

2) DEPOSIT 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 of Bank Deposits

Cash consists of checking accounts, money market accounts, and cash-on-hand. At June 30, 2015, DTC had a deposit balance of \$263,466 (excluding outstanding checks and deposits in transit) that was insured through the Federal Deposit Insurance Corporation, and \$2,111,415 that was not insured.

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:

	<u>Rating</u>	<u>Cost</u>	<u>Fair Value</u>
<i>Rating Organization : Standards & Poor's Rating and Moody's Rating</i>			
Cash & Cash Equivalents	None	\$ 1,155,887	\$ 1,155,887
Fixed Income			
Treasuries			
US Treasury Bond	AAA/Aaa	263,935	326,302
U.S. Agencies			
Financing Corp., 10.7%, 10/06/17	NR/Aaa	15,589	12,174
Equities			
Mutual Funds	Unrated	999,273	1,406,743
Accrued Interest		<u>2,636</u>	<u>2,636</u>
Total		<u>\$ 2,437,320</u>	<u>\$ 2,903,742</u>
Restricted Cash & Investments			\$ 2,758,202
Unrestricted Cash & Investments			\$ 145,540

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

2) DEPOSIT AND INVESTMENTS – (Continued)

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.

3) CAPITAL ASSETS

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

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2015</u>
Capital Assets not being Depreciated:				
Land	\$ 5,122,237	\$ -	\$ (1,283,841)	\$ 3,838,396
Capital Work in Process	2,559,756	259,429	(2,559,756)	259,429
Total Assets not being Depreciated	<u>7,681,993</u>	<u>259,429</u>	<u>(3,843,597)</u>	<u>4,097,825</u>
Capital Assets being Depreciated:				
Artwork	1,986,000	-	-	1,986,000
Transportation Equipment & Structure	212,408,004	2,690,372	2,559,756	217,658,132
Other Equipment	5,612,058	10,690	-	5,622,748
Furniture & Fixture	515,411	4,453	-	519,864
Auto	85,221	-	-	85,221
Total Assets being Depreciated	<u>220,606,694</u>	<u>2,705,515</u>	<u>2,559,756</u>	<u>225,871,965</u>
Total Capital Assets	<u>228,288,687</u>	<u>2,964,944</u>	<u>(1,283,841)</u>	<u>229,969,790</u>
Accumulated Depreciation:				
Artwork	1,668,240	-	-	1,668,240
Transportation Equipment & Structure	173,522,633	6,700,575	-	180,223,208
Other Equipment	5,507,949	71,569	-	5,579,518
Furniture & Fixture	503,924	8,582	-	512,506
Auto	55,741	8,684	-	64,425
Subtotal	<u>181,258,487</u>	<u>6,789,410</u>	<u>-</u>	<u>188,047,897</u>
Net Capital Assets being Depreciated	<u>39,348,207</u>	<u>(4,083,895)</u>	<u>2,559,756</u>	<u>37,824,068</u>
Net Capital Assets	<u>\$ 47,030,200</u>	<u>\$ (3,824,466)</u>	<u>\$ (1,283,841)</u>	<u>\$ 41,921,893</u>

During fiscal year 2015, fixed assets of \$1,283,841 were disposed resulting in a loss of \$361,192.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

4) INTER GOVERNMENTAL RECEIVABLES

At June 30, 2015, Inter Governmental receivables were as follows:

City of Detroit - Subsidy	\$	2,050,766
City of Detroit - Transit Safety		676,930
SEMCOG		31,925
Total	\$	<u>2,759,621</u>

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 ending June 30, 2015 amounted to \$4,332,786.

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.

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. Pursuant to the Beam Escrow Drawdown Agreement executed on December 14, 2011, DTC obtained approvals to borrow \$1,970,000 from this account to be used for operations for the fiscal year 2015. \$970,000 was deposited back into account during the year.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

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.

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	33
Terminated Plan Members Entitled to but not yet Receiving Benefits	55
Active Plan Members	<u>97</u>
Total	<u><u>185</u></u>

Annual Pension Cost and Assumptions – For the year ended June 30, 2015 DTC's annual pension cost was \$965,775. The annual required contribution of \$746,024 was determined as part of an actuarial valuation at July 1, 2014, the latest actuarial valuation, using the Projected Unit Credit Method. Significant actuarial assumptions used include (a) a 6.58% 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.

Mortality rates were based on the RP-2000 Mortality table projected to 2017 using scale AA.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

7) DEFINED BENEFIT PENSION PLAN – (Continued)

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, 2014. The minimum required contribution for 2015 and 2014 consisted of normal costs of \$746,024 and \$652,890, respectively, (approximately 13.15% and 13.48%, respectively, of current covered payroll per actuary report) plus interest on the normal costs. DTC contributed \$686,492 and \$699,166 during fiscal year 2015 and 2014, respectively.

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 (to the extent that 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 plan's projected fiduciary net position is not sufficient to pay benefits).

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.58%; the municipal bond rate is 3.80% (based on the weekly rate closest to but not later than the measurement date of the "state & local bonds" rate from Federal Reserve statistical release (H.15)); and the resulting Single Discount Rate is 6.58% as of June 30, 2015.

Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Pension Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at 6/30/2014	\$ 15,597,308	\$ 10,568,234	\$ 5,029,074
Changes for the year:			
Service Cost	518,459	-	518,459
Interest	1,058,048	-	1,058,048
Difference between expected and actual experience	-	-	-
Contributions-Employer	-	686,492	(686,492)
Net Investment Income	-	434,395	(434,395)
Benefit Payments	(316,996)	(316,996)	-
Assumption Changes	352,790	-	352,790
Net Changes	<u>1,612,301</u>	<u>803,891</u>	<u>808,410</u>
Balances at 6/30/2015	<u>\$ 17,209,609</u>	<u>\$ 11,372,125</u>	<u>\$ 5,837,484</u>

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

7) DEFINED BENEFIT PENSION PLAN – (Continued)

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

The following presents net pension liability of DTC, calculated using 6.58%, as well as, what DTC net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.58%), or, 1-percentage-point higher (7.58%) than the current rate:

	<u>1% Decrease 5.58%</u>	<u>Current Single Discount Rate Assumption 6.58%</u>	<u>1% Increase 7.58%</u>
DTC's Net Pension Liability	\$ 8,283,951	\$ 5,837,484	\$ 3,776,286

Pension Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions

For the year ended June 30, 2015, DTC recognized a pension expense of \$965,775. At June 30, 2015, 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>
Assumption Changes	\$ 274,476	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments (Gains) or Losses	254,651	-
Total	<u>\$ 529,127</u>	<u>\$ -</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 Outflow of Resources</u>
2016	\$ 141,977
2017	141,977
2018	141,977
2019	103,196
	<u>\$ 529,127</u>

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2015

8) 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.

9) 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.

	<u>2015</u>	<u>2014</u>
Settlement Payable	\$ 415,834	\$ 436,877
Less: Current Portion	<u>(166,297)</u>	<u>(137,641)</u>
Long-Term Debt	<u>\$ 249,537</u>	<u>\$ 299,236</u>

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.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)

June 30, 2015

10) BUDGETARY DATA (Continued)

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.

11) COMMITMENTS & CONTINGENCIES

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

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.

12) UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

Statement No. 72 is required to be adopted for years beginning after June 15, 2015. DTC is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the DTC's financial statements for the year ending June 30, 2016.

13) SUBSEQUENT EVENT

DTC has evaluated subsequent events through December 30, 2015 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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Contribution	\$ 746,024	\$ 652,890	\$ 612,104	\$ 524,116	\$ 717,494	\$ 692,277	\$ 589,749	\$ 552,782	\$ 633,061	\$ 279,342
Actual Contributions in Relation to the Actuarially Determined Contribution	686,492	699,166	597,749	524,116	647,749	531,752	529,572	560,710	560,853	279,342
Contribution Deficiency (Excess)	\$ 59,532	\$ (46,276)	\$ 14,355	\$ -	\$ 69,745	\$ 160,525	\$ 60,177	\$ (7,928)	\$ 72,208	\$ -
Covered Employee Payroll	\$ 5,405,616	\$ 5,197,708	\$ 4,746,860	\$ 4,321,705	\$ 3,987,827	\$ 5,115,793	\$ 4,808,029	\$ 4,198,269	\$ 4,159,875	\$ 4,511,282
Actual Contributions as a Percentage of Covered Employee Payroll	12.70%	13.45%	12.59%	12.13%	16.24%	10.39%	11.01%	13.36%	13.48%	6.19%

ACTUARIAL ASSUMPTIONS

The information in the actuarial accrued liability measure was computed as part of an actuarial valuation performed as of July 1, 2014.

Significant actuarial assumptions used in the valuation are as follows:

Valuation Date	July 1, 2014
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	6.58%
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 Schedule of Changes in Net Pension Liability and Related Ratios Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>
Total Pension Liability	\$ 518,459	\$ 431,404
Interest on Total Pension Liability	1,058,048	1,006,243
Difference between Expected and Actual Experience	-	198,787
Assumption Changes	352,790	(83,741)
Benefit Payments	<u>(316,996)</u>	<u>(229,175)</u>
Net change in Total Pension Liability	1,612,301	1,323,518
Total Pension Liability - Beginning	15,597,308	14,273,790
Total Pension Liability - Ending (a)	<u>\$ 17,209,609</u>	<u>\$ 15,597,308</u>
Plan Fiduciary Net Position		
Contributions- Employer	\$ 686,492	\$ 699,166
Net Investment Income	434,395	1,541,685
Benefit Payments	<u>(316,996)</u>	<u>(229,175)</u>
Net Change in Plan Fiduciary Net Position	803,891	2,011,676
Plan Fiduciary Net Position - Beginning	10,568,234	8,556,558
Plan Fiduciary Net Position - Ending (b)	<u>\$ 11,372,125</u>	<u>\$ 10,568,234</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 5,837,484</u>	<u>\$ 5,029,074</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.08%	67.76%
Covered Employee Payroll	\$ 5,405,616	\$ 5,197,708
Net Pension Liability as a Percentage of Covered Employee Payroll	107.99%	96.76%

Notes to Schedule:

Covered payroll shown for June 30, 2015 is the employee payroll as of June 30, 2014, increased by 4% wage inflation. If the actual covered payroll amount becomes available, this valuation may be updated accordingly.