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

FROM: David Whitaker, Director 
Legislative Policy Division

DATE: March 5, 2021

RE: 2021-2022 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2021-2022 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Monday, March 8 at 11 am.** We would then appreciate a written response to the issues/questions prior to your budget hearing or soon after. 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
Jay Rising, Acting Chief Financial Officer
Tanya Stoudemire, Chief Deputy Chief Financial Officer
Steve Watson, Budget Director
Avery Peoples, Mayor's Office

Detroit Transportation Corporation (People Mover)

FY 2021-2022 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 2021-2022, 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. Please provide an update on the current condition of the People Mover. Has the fact that the system has been temporarily shut down given staff the chance to conduct repairs and rehab work that would be difficult to handle when the system is running?
2. What are the plans for a reopening?
3. Are there any new capital needs for the system? Please provide cost estimates.
4. Please provide a copy of the 2021-2022 budget presented to the Board.
5. Why was it determined to not make required pension payments in FY 2020? When will that payment be made? Please explain how this affects the pension fund. What percentage of funding is the fund currently positioned? What returns did the fund have for the last two fiscal years?
6. What is projected for this proposed budget in terms of fare revenue?
7. Please indicate the number of vacant positions as of January 31, 2021. Is there a plan to fill positions?
8. Have there been updated discussions with the new owner of the Joe Louis Parking Garage as they prepare to rehab and reopen?
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 2022. Please provide which appropriation/cost center the new initiative/request/proposal is impacting in FY 2022.

DETROIT TRANSPORTATION CORPORATION

FINANCIAL REPORT

JUNE 30, 2020

DETROIT TRANSPORTATION CORPORATION

Contents

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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, 2020, 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)**

Emphasis of Matter

As discussed in Note 11 to the financial statements, DTC had significant cash flow issues during the year due to delayed collections from the City Subsidy and DDOT. Owing to this, DTC did not make the statutory required contribution to the employees' retirement system for the year ended June 30, 2020. Also, DTC has withdrawn \$1,000,000 from the restricted Beam Escrow to support the operating expenses which was deposited back subsequent to the year end.

Our opinion is not modified with respect to this matter.

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, 2020, 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 on November 9, 2020, 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 C. Young, Assoc.

Detroit, Michigan
November 9, 2020

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

DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis June 30, 2020

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, 2020. 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 \$26.4 million (net position).

The operating loss decreased by \$2,271,037 from \$21,042,483 for the year ended June 30, 2019 to \$18,771,446 for the year ended June 30, 2020.

Per the statement of net position, DTC had \$2,408,087 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

Management's Discussion & Analysis (Continued)
June 30, 2020

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 proprietary fund financial statements because DTC cannot use these assets to finance its operations.

Impact of COVID-19 on DTC

In early March, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic.

The following factors impacted DTC's operations during the year ended June 30, 2020.

- Suspension of M-1 Rail agreement on account of closures due to COVID-19.
- Decline in the ticket sales revenue due to suspension of the People Mover activity after March 2020.

Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis (Continued)
June 30, 2020

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):

Assets	2020	2019
Current Assets	\$ 13,757,697	\$ 11,294,485
Restricted Assets	2,408,087	2,318,819
Capital Assets Net of Accumulated Depreciation	26,786,420	27,914,232
Total Assets	42,952,204	41,527,536
Deferred Outflows of Resources		
Pension Cost Deferred	2,150,594	1,510,561
Total Deferred Outflows of Resources	2,150,594	1,510,561
Liabilities		
Current Liabilities	6,304,762	2,570,483
Long-Term Liabilities, except Pension	524,668	532,477
Pension Liability	10,602,788	7,740,979
Total Liabilities	17,432,218	10,843,939
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	1,223,467	1,427,283
Total Deferred Inflows of Resources	1,223,467	1,427,283
Net Position		
Net Investment in Capital Assets	26,786,420	27,914,232
Restricted	3,606,278	3,517,010
Unrestricted	(3,945,585)	(664,367)
Total Net Position	\$ 26,447,113	\$ 30,766,875

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 \$26.4 million at the close of fiscal year 2020.

DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis (Continued)
June 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Changes in Net Position – Presented below are the condensed activities for the years ended June 30, 2020 and 2019 (the detailed financial statement is presented on page 11):

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Charges for Sales and Services: Ticket Sales	\$ 606,864	\$ 1,044,769
Total Operating Revenues	<u>606,864</u>	<u>1,044,769</u>
Operating Expenses		
Administration	(16,982,360)	(19,516,037)
Depreciation	<u>(2,395,950)</u>	<u>(2,571,215)</u>
Total Operating Expenses	<u>(19,378,310)</u>	<u>(22,087,252)</u>
Operating Loss	<u>(18,771,446)</u>	<u>(21,042,483)</u>
Capital and Nonoperating Revenues		
Investment Income (Loss)	7,333	(309,139)
Grant and Other Revenues	<u>14,444,351</u>	<u>18,411,484</u>
Net Capital and Nonoperating Revenues	<u>14,451,684</u>	<u>18,102,345</u>
Change in Net Position	(4,319,762)	(2,940,138)
Net Position, Beginning of Year	<u>30,766,875</u>	<u>33,707,013</u>
Net Position, End of Year	<u>\$ 26,447,113</u>	<u>\$ 30,766,875</u>

Analysis of Statement of Changes in Net Position– DTC's net position decreased by \$4.3 million during the current fiscal year.

DETROIT TRANSPORTATION CORPORATION

Management's Discussion & Analysis (Continued)
June 30, 2020

CAPITAL ASSETS

DTC's net investment in capital assets was \$26,786,420 net of accumulated depreciation as of June 30, 2020, 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)
Revenues:				
Ticket & Token Sales	\$ 1,175,000	\$ 1,175,000	\$ 606,864	\$ (568,136)
FTA Grants	1,250,000	1,250,000	1,030,498	(219,502)
MDOT Rail Grant Revenue	250,000	250,000	244,216	(5,784)
SEMCOG Grant Revenue	76,180	76,180	76,122	(58)
Misc. Revenue & Rental Income	162,000	162,000	294,775	132,775
Advertising Revenue	550,000	550,000	118,325	(431,675)
City Subsidy - Transit Police	2,500,000	2,500,000	3,690,000	1,190,000
M-1 Rail (Qline)	960,000	960,000	758,466	(201,534)
City Subsidy	6,500,000	6,500,000	6,039,756	(460,244)
State Operating Assistance	5,600,000	5,600,000	2,199,526	(3,400,474)
Total Revenues	\$ 19,023,180	\$ 19,023,180	\$ 15,058,548	\$ (3,964,632)
Expenditures:				
Cost of Sales & Services				
Administration	\$ 18,476,797	\$ 18,476,797	\$ 16,982,360	\$ 1,494,437
Depreciation	2,414,107	2,414,107	2,395,950	18,157
Total Expenditures	\$ 20,890,904	\$ 20,890,904	\$ 19,378,310	\$ 1,512,594

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, 2020

ASSETS

Current Assets

Cash and Cash Equivalents (Note 2)	\$ 401,592
Cash and Cash Equivalents - Restricted (Note 2)	1,198,191
Investments (Note 2)	4,684
Accounts Receivable, Net	58,289
Inter-Governmental Receivables (Note 4)	8,263,822
Inventories	3,276,069
Prepaid Expenses and Other	555,050
Total Current Assets	13,757,697

Non Current Assets (Note 2)

Restricted Investments	2,408,087
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Capital Assets (Note 3)

Land	3,697,271
Capital Work-in-Process	1,124,667
Artwork	1,986,000
Transportation Equipment and Structures	222,628,805
Other Equipment	5,717,203
Furniture and Fixture	519,864
Auto	49,708
Software	255,936
Less: Accumulated Depreciation	(209,193,034)
Total Capital Assets (Net of Accumulated Depreciation)	26,786,420

Total Non Current Assets	29,194,507
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Total Assets	42,952,204
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Deferred Outflows of Resources

Pension Cost Deferred (Note 7)	2,150,594
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Total Assets and Deferred Outflows of Resources	\$ 45,102,798
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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, 2020

LIABILITIES AND NET POSITION

Current Liabilities Payable from Current Assets

Accounts and Contracts Payable	\$ 1,807,742
Accrued Salaries and Wages	287,819
Other Payables (Note 5)	4,207,281
Settlement Payable, Current Portion	<u>1,920</u>
Total Current Liabilities	6,304,762

Long-Term Liabilities

Accrued Compensated Absences	324,668
Net Pension Liability (Note 7)	10,602,788
Settlement Payable, Net of Current Portion (Note 8)	<u>200,000</u>
Total Long-Term Liabilities	11,127,456
Total Liabilities	<u>17,432,218</u>

Deferred Inflows of Resources

Deferred Inflows Related to Pension (Note 7)	<u>1,223,467</u>
Total Liabilities and Deferred Inflows of Resources	<u>18,655,685</u>

NET POSITION

Net Investment in Capital Assets	26,786,420
Restricted	
Beam Maintenance	2,408,087
FTA Projects	1,198,191
Unrestricted	<u>(3,945,585)</u>
Total Net Position	<u>26,447,113</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 45,102,798</u>

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, 2020

OPERATING REVENUES

Charges for Sales and Services: Ticket Sales	\$ 606,864
Total Operating Revenues	<u>606,864</u>

Costs of Sales and Services

Labor	6,659,184
Fringe Benefits	5,268,401
Services	2,318,868
Material and Supplies	422,721
Utilities	914,611
Insurance	1,018,641
Miscellaneous Expenses	36,286
Operating Leases	343,648
Depreciation	2,395,950
Total Operating Expenses	<u>19,378,310</u>

Operating Loss (18,771,446)

NONOPERATING REVENUES (EXPENSES)

Operating Grants and Contracts	
Federal	76,122
State	2,199,526
Local	10,488,222
Interest Income	82,664
Rental Income	38,601
Misc. Revenue	166,177
Advertising Income	118,325
Net Unrealized Gain on Investments	7,333
Total Nonoperating Revenue	<u>13,176,970</u>

Net Loss Before Capital Contributions (5,594,476)

CAPITAL CONTRIBUTIONS

Federal Grants	976,860
State Grants	297,854
Total Capital Contributions	<u>1,274,714</u>

Change in Net Position (4,319,762)

Net Position - Beginning of Year 30,766,875

Net Position - End of Year \$ 26,447,113

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

DETROIT TRANSPORTATION CORPORATION

Statement of Cash Flows Proprietary Fund Year Ended June 30, 2020

CASH FLOWS FROM OPERATIONS

Receipts from Customers	\$ 606,864
Payments to Suppliers	(5,050,047)
Payments to Employees	(10,050,144)
Net Cash Used in Operating Activities	<u>(14,493,327)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal Operating Grants	114,754
State of Michigan Grants	5,982,208
Local Nonoperating Receipts	7,018,744
Net Cash Provided by Noncapital Financing Activities	<u>13,115,706</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(1,268,138)
Capital Contribution by Government Units	544,757
Net Cash Used In Capital and Related Financing Activities	<u>(723,381)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Withdrawal from S.I.R investments	16,646
Purchase of restricted investments	(89,735)
Investment Income	89,997
Net Cash Provided by Investing Activities	<u>16,908</u>

Net Decrease in Cash and Cash Equivalents	(2,084,094)
Cash and Cash Equivalents, Beginning of Year	3,683,877
Cash and Cash Equivalents, End of Year (Including Restricted Cash)	<u>\$ 1,599,783</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (18,771,446)
Adjustment to Reconcile Operating Loss to Net Cash Flows from Operating Activities	
Depreciation and Amortization	2,395,950
Change in Prepaid Expenses	(33,218)
Change in Inventories	(46,361)
Change in Pension Cost Deferred	(640,033)
Change in Accounts & Contracts Payable	84,307
Change in Accrued Salaries Payable	(34,173)
Change in Accrued Pension Payable	2,861,809
Change in Pension Deferred Inflows	(203,816)
Change in Accrued Compensated Absences	(106,346)
Total Adjustment	<u>4,278,119</u>

Net Cash Used in Operating Activities	<u>\$ (14,493,327)</u>
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The accompanying notes are an integral part of these financial statements.

DETROIT TRANSPORTATION CORPORATION

Statement of Fiduciary Net
Position – Pension Trust Fund
June 30, 2020

Assets

Investments at Fair Value

Debt Securities	\$ 6,474,111
Equity Securities	10,490,766
Short Term Investments	<u>692,494</u>
Total Investments	<u>17,657,371</u>

Total Assets	<u>17,657,371</u>
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Net Position (Restricted for Retirement Benefits)	<u><u>\$ 17,657,371</u></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, 2020

Additions

Investment Income

Cash Income	\$ 1,482,101
Accrued Income	(1,094)
Net Depreciation in Fair Value of Investments	<u>(1,183,423)</u>
Total Investment Income	<u>297,584</u>

Other Additions	<u>1,818</u>
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Total Additions	<u>299,402</u>
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Deductions

Benefit Payments including Refunds of Employee Contributions	<u>522,163</u>
Total Deductions	<u>522,163</u>

Change in Net Position	<u>(222,761)</u>
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Net Position

Beginning of Year	<u>17,880,132</u>
End of Year	<u>\$ 17,657,371</u>

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

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements
June 30, 2020

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, 2020

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 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 assets 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, 2020

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, 2020

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:

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, 2020 was \$2,150,594.

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, 2020 was \$1,223,467.

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, 2020

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, 2020, 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 \$1,948,888 that was not insured.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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	\$ 1,222,938	\$ 1,222,938
Fixed Income			
Treasuries			
US Treasury Bond	AAA/Aaa	263,935	418,711
Equities			
Mutual Funds	Unrated	754,822	769,627
Accrued Interest	None	1,495	1,495
Total		<u>\$ 2,243,190</u>	<u>\$ 2,412,771</u>
Restricted Investments			\$ 2,408,087
Unrestricted Investments			\$ 4,684

In addition, as of June 30, 2020 DTC reported investments in the Statement of Fiduciary Net Position for the Pension Plan of \$17,657,371 which were held by Comerica Institutional TR and comprised as follows:

	<u>Amount</u>	<u>Percent of Portfolio</u>
Short Term Investment (including Cash)	\$ 692,494	3.9%
Equity Securities	10,490,766	59.4%
Debt Securities	6,474,111	36.7%
	<u>\$ 17,657,371</u>	<u>100.0%</u>

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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, 2020

3) CAPITAL ASSETS

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

	Balance July 1, 2019	Additions	Adjustments	Balance June 30, 2020
Capital Assets not being Depreciated:				
Land	\$ 3,697,271	\$ -	\$ -	\$ 3,697,271
Capital Work in Process	211,184	1,089,452	(175,969)	1,124,667
Total Assets not being Depreciated	<u>3,908,455</u>	<u>1,089,452</u>	<u>(175,969)</u>	<u>4,821,938</u>
Capital Assets being Depreciated:				
*Artwork	1,986,000	-	-	1,986,000
Transportation Equipment & Structure	222,403,435	131,624	93,746	222,628,805
Other Equipment	5,696,268	20,935	-	5,717,203
Furniture & Fixture	519,864	-	-	519,864
Auto	49,708	-	-	49,708
Software	147,586	26,127	82,223	255,936
Total Assets being Depreciated	<u>230,802,861</u>	<u>178,686</u>	<u>175,969</u>	<u>231,157,516</u>
Total Capital Assets	234,711,316	1,268,138	-	235,979,454
Accumulated Depreciation:				
Artwork	1,668,240	-	-	1,668,240
Transportation Equipment & Structure	198,906,131	2,328,215	-	201,234,346
Other Equipment	5,646,863	16,982	-	5,663,845
Furniture & Fixture	519,418	446	-	519,864
Auto	43,904	4,973	-	48,877
Software	12,528	45,334	-	57,862
Subtotal	<u>206,797,084</u>	<u>2,395,950</u>	<u>-</u>	<u>209,193,034</u>
Net Capital Assets being Depreciated	<u>24,005,777</u>	<u>(2,217,264)</u>	<u>175,969</u>	<u>21,964,482</u>
Net Capital Assets	<u>\$ 27,914,232</u>	<u>\$ (1,127,812)</u>	<u>\$ -</u>	<u>\$ 26,786,420</u>

Depreciation expense for the year was \$2,395,950.

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

4) INTER GOVERNMENTAL RECEIVABLES

At June 30, 2020, Inter Governmental receivables were as follows:

City of Detroit - Subsidy	\$ 3,796,391
City of Detroit - Transit Police	3,690,000
MDOT - Rail Grant	174,246
Federal Transit Administration	569,030
SEMCOG	34,155
Total	<u>\$ 8,263,822</u>

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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, 2020 amounted to \$2,199,526. However, for the year ended June 30, 2020, the amount received was in excess of the calculated operating assistance. Also, DTC received the final determination of amount for the year 2017 and preliminary reconciliation for the years 2018 and 2019 during the year ended June 30, 2020. Owing to this, the net payable to MDOT as on June 30, 2020 was \$4,207,281. 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 2019-20, \$1,000,000 was withdrawn from the Beam Escrow account for operating expenses. Also, \$900,000 out of withdrawals from 2018-19 was not deposited back during 2019-20. As of June 30, 2020 \$1,900,000 was payable back to Beam Escrow. Prior to the issuance of this report, the entire \$1,900,000 was deposited back to Beam Escrow.

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 calendar years during the last ten consecutive calendar years of employment with the DTC.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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	51
Terminated Plan Members entitled to but not yet Receiving Benefits	53
Active Plan Members	106
Total	<u>210</u>

Annual Pension Cost and Assumptions – For the year ended June 30, 2020 DTC's annual pension cost was \$2,017,960. The actuarially determined contribution of \$1,211,221 was determined as part of an actuarial valuation at July 1, 2019, 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 calculated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2019. The actuarially determined contribution for 2020 and 2019 consisted of normal costs of \$1,211,221 and \$1,156,401, respectively, plus interest on the normal costs. DTC contributed \$0 and \$1,400,000 during fiscal year 2020 and 2019, respectively.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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 2.45% (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 5.51% as of June 30, 2020.

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 June 30, 2019	\$ 25,621,111	\$ 17,880,132	\$ 7,740,979
Changes for the year:			
Service Cost	950,966	-	950,966
Interest	1,519,128	-	1,519,128
Difference between Expected and Actual Experience	(409,905)	-	(409,905)
Contributions-Employer	-	-	-
Net Investment Income (Loss)	-	297,584	(297,584)
Benefit Payments	(522,163)	(522,163)	-
Assumption Changes	1,101,022	-	1,101,022
Other	-	1,818	(1,818)
Net Changes	<u>2,639,048</u>	<u>(222,761)</u>	<u>2,861,809</u>
Balances at June 30, 2020	<u>\$ 28,260,159</u>	<u>\$ 17,657,371</u>	<u>\$ 10,602,788</u>

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

The following presents net pension liability of DTC, calculated using 5.51%, 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 (4.51%), or, 1-percentage-point higher (6.51%) than the current rate:

	Current Single Discount Rate		
	1% Decrease 4.51%	Assumption 5.51%	1% Increase 6.51%
DTC's Net Pension Liability	\$14,472,403	\$ 10,602,788	\$ 7,371,112

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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, 2020, DTC recognized a pension expense of \$2,017,960. At June 30, 2020, 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	\$ 20,363	\$ 922,195	\$ (901,832)
Changes in Assumptions	1,186,546	113,293	1,073,253
Net Difference Between Projected and Actual Earnings on Pension Plan Investments (Gains) or Losses	<u>943,685</u>	<u>187,979</u>	<u>755,706</u>
Total	<u>\$ 2,150,594</u>	<u>\$ 1,223,467</u>	<u>\$ 927,127</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>
2021	\$ 194,259
2022	147,681
2023	414,695
2024	<u>170,492</u>
	<u>\$ 927,127</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)
2020	2,017,960	-	(2,017,960)

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

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 10, 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>2020</u>	<u>2019</u>
Settlement Payable	\$ 201,920	\$ 235,520
Less: Current Portion	<u>(1,920)</u>	<u>(35,520)</u>
Long-Term Portion	<u>\$ 200,000</u>	<u>\$ 200,000</u>

9) 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.

10) 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.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

10) COMMITMENTS & CONTINGENCIES (Continued)

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. As of June 30, 2020, no change was noted to the contingent liability recorded in prior year.

11) LIQUIDITY

For the fiscal year ended June 30, 2020, DTC incurred an operating loss of \$18,771,446 and a net deficit of \$4,319,762. Due to delay in availability of a signed contract from the City of Detroit, billing and collections were significantly delayed and a large amount was outstanding at June 30, 2020. Also, the ticket sales and M-1 Rail revenue declined due to suspension because of COVID-19. Owing to this, DTC obtained approvals to use the restricted funds held for beam maintenance for regular operations. Also, DTC did not make the statutory required contribution to the employees' retirement system for the year ended June 30, 2020 due to lack of availability of funds. As mentioned in the Emphasis of Matter paragraph in the Independent Auditor's Report, our opinion is not modified with respect to this matter.

12) UPCOMING PRONOUNCEMENTS

GASB Statement No. 84 – Fiduciary Activities

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. DTC is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this standard were originally effective for DTC's financial statements for the year ended June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB 95, Postponement of the Effective Date of Certain Authoritative Guidance.

GASB Statement No. 87 – Leases

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. DTC is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this standard were originally effective for DTC's financial statements for the year ended June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB 95, Postponement of the Effective Date of Certain Authoritative Guidance.

DETROIT TRANSPORTATION CORPORATION

Notes to Financial Statements (Continued)
June 30, 2020

13) SUBSEQUENT EVENT

DTC has evaluated subsequent events through November 9, 2020, 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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially Determined Contribution	\$ 1,211,221	\$ 1,156,401	\$ 1,221,918	\$ 1,191,745	\$ 767,034	\$ 746,024	\$ 652,890	\$ 612,104	\$ 524,116	\$ 717,494
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
Contribution Deficiency (Excess)	<u>\$ 1,211,221</u>	<u>\$ (243,599)</u>	<u>\$ (252,793)</u>	<u>\$ 324,711</u>	<u>\$ (531,880)</u>	<u>\$ 59,532</u>	<u>\$ (46,276)</u>	<u>\$ 14,355</u>	<u>\$ -</u>	<u>\$ 69,745</u>
Covered Employee Payroll	\$ 7,777,847	\$ 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
Actual Contributions as a Percentage of Covered Employee Payroll	0.00%	19.49%	20.03%	12.44%	21.96%	12.70%	13.45%	12.59%	12.13%	16.24%

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, 2019
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage-of-Payroll, Open
Remaining 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%
Retirement Age	Experience- based table of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Healthy Annuitant Mortality Table

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

	2020	2019	2018	2017	2016
Total Pension Liability					
Service Cost	\$ 950,966	\$ 864,941	\$ 953,656	\$ 758,467	\$ 556,895
Interest on Total Pension Liability	1,519,128	1,461,635	1,376,961	1,224,626	1,141,879
Difference between Expected and Actual Experiences	(409,905)	(793,435)	(535,083)	203,327	4,864
Assumption Changes	1,101,022	364,195	(301,246)	1,674,853	943,245
Benefit Payments	(522,163)	(490,022)	(363,233)	(366,480)	(268,543)
Net Change in Total Pension Liability	2,639,048	1,407,314	1,131,055	3,494,793	2,378,340
Total Pension Liability - Beginning	25,621,111	24,213,797	23,082,742	19,587,949	17,209,609
Total Pension Liability - Ending (a)	<u>\$28,260,159</u>	<u>\$ 25,621,111</u>	<u>\$ 24,213,797</u>	<u>\$ 23,082,742</u>	<u>\$ 19,587,949</u>
Plan Fiduciary Net Position					
Contributions- Employer	\$ -	\$ 1,400,000	\$ 1,474,711	\$ 867,034	\$ 1,298,914
Net Investment Income (Loss)	297,584	553,235	1,120,754	1,417,128	(136,077)
Benefit Payments	(522,163)	(490,022)	(363,233)	(366,480)	(268,543)
Other	1,818	-	-	586	-
Net Change in Plan Fiduciary Net Position	(222,761)	1,463,213	2,232,232	1,918,268	894,294
Plan Fiduciary Net Position - Beginning	17,880,132	16,416,919	14,184,687	12,266,419	11,372,125
Plan Fiduciary Net Position - Ending (b)	<u>\$17,657,371</u>	<u>\$ 17,880,132</u>	<u>\$ 16,416,919</u>	<u>\$ 14,184,687</u>	<u>\$ 12,266,419</u>
Net Pension Liability - Ending (a)-(b)	<u>\$10,602,788</u>	<u>\$ 7,740,979</u>	<u>\$ 7,796,878</u>	<u>\$ 8,898,055</u>	<u>\$ 7,321,530</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.48%	69.79%	67.80%	61.45%	62.62%
Covered Employee Payroll	\$ 7,777,847	\$ 7,184,605	\$ 7,363,912	\$ 6,966,600	\$ 5,914,288
Net Pension Liability as a Percentage of Covered Employee Payroll	136.32%	107.74%	105.88%	127.72%	123.79%