


David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Senior City Planner
Janese Chapman
Deputy Director

John Alexander
LaKisha Barclift, Esq.
M. Rory Bolger, Ph.D., AICP
Elizabeth Cabot, Esq.
Tasha Cowen
Richard Drumb
George Etheridge
Deborah Goldstein

City of Detroit
CITY COUNCIL
LEGISLATIVE POLICY DIVISION
208 Coleman A. Young Municipal Center
Detroit, Michigan 48226
Phone: (313) 224-4946 Fax: (313) 224-4336

Christopher Gulock, AICP
Derrick Headd
Marcel Hurt, Esq.
Kimani Jeffrey
Anne Marie Langan
Jamie Murphy
Carolyn Nelson
Kim Newby
Analine Powers, Ph.D.
Jennifer Reinhardt
Sabrina Shockley
Thomas Stephens, Esq.
David Teeter
Theresa Thomas
Kathryn Lynch Underwood
Ashley A. Wilson

TO: Beau Taylor, Director
Detroit Public Lighting Authority

FROM: David Whitaker, Director 
Legislative Policy Division

DATE: March 9, 2020

RE: 2020-2021 Budget Analysis

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

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Thursday, March 12 at 3:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions.

Thank you for your cooperation in this matter.

Attachments
Issues and Questions

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

Public Lighting Authority

FY 2020-2021 Budget Analysis by the Legislative Policy Division

Issues and Questions

1. Please explain the current staffing at the PLA. How many full time positions? What is the staffing plan for the upcoming year?
2. The \$10.5 M appropriation is a general fund transfer to the PLA for maintenance costs. How much was spent in the last two fiscal years? Why is the budget remaining the same as the current year?
3. Please provide the board approved current year's operation budget and proposed budget for the upcoming fiscal year. Please provide the latest organizational chart for the Public Lighting Authority.
4. What capital projects being considered in the upcoming fiscal year.
5. Different sections of the new lighting have gone out over the last few years. Was it repaired under warranty?
6. What is the replacement cycle for light fixtures?
7. Are there any plans for additional lamping throughout the city?
8. Please provide a copy of the debt service schedule for the PLA bonds.
9. Reviewing the PLA's 2019 audited statements (attached) –
 - On Page 5, explain the factors that increased the unrestricted/surplus from \$21.8 to \$30.7 million. Why should the PLA have an increasing surplus of \$9 million? Why is the subsidy from the general fund greater than what is needed for the PLA? If in fact these dollars are for restricted uses, shouldn't the unrestricted/surplus be reclassified as restricted?
 - On Page 6, other operating revenue totals \$10.2 million. Since there was a budget for PLA to transfer \$10.5 million from the general fund, why wasn't it completely transferred?

PUBLIC LIGHTING AUTHORITY
(A Component Unit of the City of Detroit, Michigan)

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2019 and 2018

PUBLIC LIGHTING AUTHORITY

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1200 Buhl Building
535 Griswold Street
Detroit, Michigan 48226-3689

(313) 965.2655 • Fax (313) 965.4614

INDEPENDENT AUDITOR'S REPORT

October 10, 2019

To the Board of Directors
Public Lighting Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Public Lighting Authority (the "PLA"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2019 and 2018, as well as the related notes to the financial statements, which comprise the PLA's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 PLA'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 PLA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the business-type activities of the PLA as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Pronouncements

As discussed in Note A, effective July 1, 2018, the PLA has adopted the disclosure provisions contained in Statement of Governmental Accounting Standards No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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, which 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 October 10, 2019 on our consideration of the PLA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the PLA's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

PUBLIC LIGHTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019 and 2018

This section of the annual report of the Public Lighting Authority (the "PLA") presents management's discussion and analysis of the PLA's financial performance during the fiscal years that ended on June 30, 2019 and 2018. Please read it in conjunction with the PLA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The PLA was authorized by the Michigan Legislature in 2012 via the Michigan Lighting Authority Act (Public Act 392 of 2012, or "Act 392") to support and develop a plan to improve public lighting in the City of Detroit (the "City"). Its creation was approved by the Detroit City Council in early 2013, and the City filed the articles of incorporation on April 5, 2013. The PLA is overseen by a five-member board that is appointed by the City's mayor and the Detroit City Council.

The PLA was authorized by Act 392 and created by the City for the purpose of providing an equitable and reasonable method and means of financing, operating, and maintaining a street lighting system in the City. The PLA has made a multi-year, large scale, city-wide investment in the public lighting infrastructure, including poles, ballasts, circuits, transformers, and distribution connections. The PLA street lighting system repair activities are funded through the sale of approximately \$185 million in bonds. The bonds will be paid back with \$12.5 million per year the PLA will receive from the City's utility user tax.

The PLA received a \$12.5 million allocation of utility user tax from the City each year to fund the street light construction for the fiscal years ended June 30, 2019 and 2018. The PLA incurred approximately \$9,501,000 and \$9,116,000 in administrative expenses, and approximately \$8,300,000 and \$8,400,000 in expenses that primarily went to cover debt service (i.e., interest expense and bond costs), during the fiscal years ended June 30, 2019 and 2018, respectively. The PLA also incurred approximately \$4,458,000 and \$3,596,000 in expenses to operate and maintain the street lighting system during the fiscal years ended June 30, 2019 and 2018, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains the PLA's financial statements, which consist of the statements of net position, the statements of revenue, expenses, and changes in fund net position, and the statements of cash flows (presented on pages 9 through 14). These financial statements report information about the PLA as a whole, using accounting methods similar to those used by private-sector companies and non-profit organizations.

PUBLIC LIGHTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2019 and 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The statements of net position include all of the PLA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current period's revenue and expenses are accounted for in the statements of revenue, expenses, and changes in fund net position, regardless of when cash is received or paid.

These financial statements report the PLA's net position and how it has changed. Net position represents the difference between the PLA's total of assets and deferred outflows of resources and its total of liabilities and deferred inflows of resources, and it represents one way to measure the PLA's financial health or position. Over time, increases or decreases in the PLA's net position are an indicator of whether its financial health is improving or deteriorating.

The notes to the financial statements, which begin on page 15, explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

The following represent the most significant highlights for the fiscal year ended June 30, 2019:

- The assets of the PLA exceeded its liabilities at the end of the fiscal year (its net position) by approximately \$36 million.
- The PLA's net position increased by approximately \$1 million as the result of current-year operations.
- The PLA decreased its capital assets by approximately \$3.5 million, which is primarily due to depreciation, particularly of the street lighting system.

PUBLIC LIGHTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2019 and 2018

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects a condensed summary of the PLA's revenue, expenses, and changes in net position for the years ended June 30, 2019, 2018, and 2017:

Table 2
Statements of Revenue, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2019, 2018, and 2017
(in millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenue:			
Utility user tax allocation	\$ 12.5	\$ 12.5	\$ 12.5
Other operating revenue	<u>10.2</u>	<u>11.1</u>	<u>10.9</u>
Total Operating Revenue	<u>22.7</u>	<u>23.6</u>	<u>23.4</u>
Operating Expenses:			
Depreciation	6.2	6.2	0.1
Other operating expenses	<u>7.7</u>	<u>6.5</u>	<u>7.7</u>
Total Operating Expenses	<u>13.9</u>	<u>12.7</u>	<u>7.8</u>
Net Operating Income	8.8	10.9	15.6
Nonoperating Revenue and Expenses:			
Nonoperating revenue	0.5	0.2	0.2
Less: Nonoperating expenses	<u>(8.3)</u>	<u>(8.4)</u>	<u>(8.5)</u>
Change in Net Position	1.0	2.7	7.3
Net Position, Beginning of Year	<u>34.9</u>	<u>32.2</u>	<u>24.9</u>
Net Position, End of Year	<u>\$ 35.9</u>	<u>\$ 34.9</u>	<u>\$ 32.2</u>

The PLA's operating revenue totaled approximately \$22.7 million, a decrease of approximately \$900 thousand over the prior fiscal year.

PUBLIC LIGHTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2019 and 2018

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1 reflects a condensed summary of the PLA's assets, liabilities, and net position as of June 30, 2019, 2018, and 2017:

Table 1
Statements of Net Position
June 30, 2019, 2018, and 2017
(in millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Cash and cash equivalents:			
Unrestricted	\$ 6.5	\$ 10.0	\$ 10.5
Reserved for operation and maintenance	4.4	18.4	12.5
Investments	35.9	15.4	23.6
Capital assets	172.6	176.2	182.1
Other assets	<u>0.1</u>	<u>0.2</u>	<u>0.8</u>
Total Assets	<u>219.5</u>	<u>220.2</u>	<u>229.5</u>
Liabilities:			
Bonds payable	178.6	182.3	189.1
Other liabilities	<u>5.0</u>	<u>3.0</u>	<u>8.2</u>
Total Liabilities	<u>183.6</u>	<u>185.3</u>	<u>197.3</u>
Net Position:			
Net investment in capital assets	5.2	13.1	18.5
Unrestricted	<u>30.7</u>	<u>21.8</u>	<u>13.7</u>
Total Net Position	<u>\$ 35.9</u>	<u>\$ 34.9</u>	<u>\$ 32.2</u>

The statements of net position show a net position of approximately \$35.9 million and \$34.9 million as of June 30, 2019 and 2018, respectively. That reflects an increase of approximately \$1 million over the net position balance at the end of the previous fiscal year.

PUBLIC LIGHTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2019 and 2018

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

The PLA incurred administrative expenses of approximately \$9.5 million and \$9.1 million for the fiscal years ended June 30, 2019 and 2018, respectively. This increase was primarily due to increases in employee compensation and professional fees of approximately \$400 thousand for the year ended June 30, 2019. The PLA also incurred nonoperating expenses in the amount of approximately \$8.3 million and \$8.4 million for debt service to cover the interest and issuance costs of the long-term financing for the fiscal years ended June 30, 2019 and 2018, respectively. The PLA also incurred operating and maintenance expenses for the street lights in the amount of approximately \$4.5 million and \$3.6 million for the fiscal years ended June 30, 2019 and 2018, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The PLA has constructed 67,121 street lights as of June 30, 2019, and has finalized a long-term financing on July 2, 2014 in the amount of approximately \$185 million. The PLA has incurred a construction cost in the amount of approximately \$2.6 million and \$0.4 million for the fiscal years ended June 30, 2019 and 2018, respectively.

ECONOMIC FACTORS

The PLA is a municipal corporation authorized by the Michigan Legislature via Act 392 and subsequently the City in February 2013. Act 392 was one bill of a tie-barred package that: (1) authorized the establishment of lighting authorities (Act 392), (2) amended the City Utility User Tax Act (Public Act 393 of 2012) to direct \$12.5 million from the utility user tax imposed by the City to the PLA for operational and financing purposes, and (3) amended the City Income Tax Act (Public Act 394 of 2012) to authorize a city that establishes a lighting authority to assess a higher income tax rate to hold the city harmless for the \$12.5 million revenue loss.

Furthermore, the said \$12.5 million revenue source has been utilized to secure \$185 million of bond proceeds that will pay for the capital improvements required to restore the street lighting system of the City.

To achieve long-term financial sustainability and assure the enduring excellence of the PLA's street lighting system and public services, the PLA's leadership has taken a focused approach to target financial commitments that maximize the capacity of the PLA to deliver the street lighting system and public services most needed by the residents of the City of Detroit.

PUBLIC LIGHTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2019 and 2018

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the PLA's finances and to demonstrate the PLA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public Lighting Authority's Finance Department at 65 Cadillac Square, Suite 3100, Detroit, Michigan 48226.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2019 and 2018

	Enterprise Funds	
	2019	2018
Assets:		
Current assets:		
Cash and cash equivalents (Note B):		
Unrestricted	\$ 6,458,740	\$ 9,977,141
Reserved for operation and maintenance	4,382,484	18,441,670
Total Cash and Cash Equivalents	10,841,224	28,418,811
Accounts receivable (no allowance considered necessary)	65,931	-0-
Prepaid expenses and other current assets	135,440	172,031
Total Current Assets	11,042,595	28,590,842
Noncurrent assets:		
Investments (Note B)	35,873,122	15,405,638
Capital assets (Note C):		
Depreciable capital assets, net	172,644,117	176,162,234
Total Noncurrent Assets	208,517,239	191,567,872
Total Assets	\$ 219,559,834	\$ 220,158,714

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2019 and 2018

	Enterprise Funds	
	2019	2018
Liabilities:		
Current liabilities:		
Accounts payable on capital acquisitions	\$ 2,144,332	\$ 350,476
Other accounts payable and accrued expenses	239,146	57,507
Advance from City of Detroit	2,651,379	2,524,971
Bonds payable due or expected to be paid within one year (Note D)	374,458	374,458
Total Current Liabilities	5,409,315	3,307,412
Noncurrent liabilities:		
Bonds payable due or expected to be paid in more than one year (Note D)	178,207,002	181,956,460
Total Liabilities	183,616,317	185,263,872
Net Position:		
Net investment in capital assets	5,230,263	13,116,597
Unrestricted	30,713,254	21,778,245
Total Net Position	\$ 35,943,517	\$ 34,894,842

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Years Ended June 30, 2019 and 2018

	Enterprise Funds	
	2019	2018
Operating Revenue:		
Utility user tax allocation from City of Detroit (Note A)	\$ 12,500,000	\$ 12,500,000
Operation and management fees from City of Detroit (Note A)	10,099,883	10,302,828
Other revenue	136,841	835,724
Total Operating Revenue	22,736,724	23,638,552
Operating Expenses:		
Operating and maintenance	4,457,623	3,596,000
Salaries and wages	1,201,424	1,054,549
Payroll taxes	98,578	92,128
Employee benefits	294,737	247,431
Professional fees	1,012,167	795,848
Occupancy	223,266	218,402
Office expenses	46,640	46,674
Insurance	230,229	259,084
Community and public relations	109,922	92,480
Depreciation (Note C)	6,209,331	6,212,352
Other expenses	74,934	96,641
Total Operating Expenses	13,958,851	12,711,589
Net Operating Income	8,777,873	10,926,963
Nonoperating Revenue:		
Investment income	520,740	200,876
Gain on disposition of capital assets	5,356	4,664
Total Nonoperating Revenue	\$ 526,096	\$ 205,540

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
(CONTINUED)

For the Years Ended June 30, 2019 and 2018

	<u>Enterprise Funds</u>	
	<u>2019</u>	<u>2018</u>
Nonoperating Expenses:		
Interest expense (Note D)	\$ 8,255,294	\$ 8,385,092
Bond costs	-0-	5,000
Total Nonoperating Expenses	<u>8,255,294</u>	<u>8,390,092</u>
Change in Net Position	1,048,675	2,742,411
Net Position, Beginning of Year	<u>34,894,842</u>	<u>32,152,431</u>
Net Position, End of Year	<u>\$ 35,943,517</u>	<u>\$ 34,894,842</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	Enterprise Funds	
	2019	2018
Cash Flows from Operating Activities:		
Cash received from City of Detroit	\$ 22,660,360	\$ 22,812,860
Cash received from other sources	136,841	835,724
Cash paid for employee compensation	(1,581,136)	(1,382,417)
Cash paid to suppliers and vendors	(5,950,154)	(4,565,151)
Net Cash Flows from Operating Activities	15,265,911	17,701,016
Cash Flows from Investing Activities:		
Cash paid for acquisition of investments	(32,598,366)	(12,471,149)
Proceeds received from disposition of investments	12,214,798	20,710,886
Cash received for investment income	436,824	200,876
Net Cash Flows from Investing Activities	(19,946,744)	8,440,613
Cash Flows from Capital Financing Activities:		
Cash paid on acquisition of capital assets	(905,002)	(1,202,363)
Proceeds received from sale of capital assets	13,000	27,500
Payments on bonds payable	(3,375,000)	(6,365,000)
Cash paid for interest	(8,629,752)	(13,201,725)
Cash paid for bond costs	-0-	(5,000)
Net Cash Flows from Capital Financing Activities	(12,896,754)	(20,746,588)
Change in Cash and Cash Equivalents	(17,577,587)	5,395,041
Cash and Cash Equivalents, Beginning of Year	28,418,811	23,023,770
Cash and Cash Equivalents, End of Year	\$ 10,841,224	\$ 28,418,811

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2019 and 2018

	<u>Enterprise Funds</u>	
	<u>2019</u>	<u>2018</u>
Schedule of Noncash Transactions:		
Acquisition of capital assets under accounts payable	<u>\$ 2,144,332</u>	<u>\$ 350,476</u>
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:		
Net operating income	\$ 8,777,873	\$ 10,926,963
Adjustments to reconcile net operating income to net cash flows from operating activities:		
Depreciation	6,209,331	6,212,352
Changes in:		
Accounts receivable	(65,931)	-0-
Inventory	-0-	619,675
Prepaid expenses and other current assets	36,591	34,077
Other accounts payable and accrued expenses	181,639	(102,083)
Advance from City of Detroit	<u>126,408</u>	<u>10,032</u>
Net Cash Flows from Operating Activities	<u>\$ 15,265,911</u>	<u>\$ 17,701,016</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The Public Lighting Authority (the “PLA”) was authorized by the Michigan Legislature in 2012 via the Michigan Lighting Authority Act (Public Act 392 of 2012) to support and develop a plan to improve public lighting in the City of Detroit, Michigan (the “City”). Its creation was approved by the Detroit City Council in early 2013, and the City filed the articles of incorporation on April 5, 2013. The PLA is overseen by a five-member board that is appointed by the City’s mayor and the Detroit City Council.

The PLA was established for the purpose of providing an equitable and reasonable method and means of financing, operating, and maintaining a street lighting system in the City. The PLA has made a multi-year, large scale, city-wide investment in the public lighting infrastructure, including poles, ballasts, circuits, transformers, and distribution connections. The PLA street lighting system repair activities are funded through the sale of bonds. The PLA issued approximately \$185 million of bonds in July 2014 (see Note D). The bonds will be repaid with \$12.5 million per year the PLA will receive from the City’s utility user tax.

For financial reporting purposes, the PLA is a component unit of the City because the members of the PLA’s Board of Directors are appointed by the City’s mayor and the Detroit City Council. There are no fiduciary funds or component units included in the accompanying financial statements.

In addition to the utility user tax received from the City, the PLA receives operation and management fees, which include administration fees, from the City. As of June 30, 2019 and 2018, the PLA had \$65,931 and \$-0-, respectively, in accounts receivable due from the City.

Adoption of New Accounting Pronouncements

In March 2018, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards (“SGAS”) No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Under SGAS No. 88, in addition to previously-existing disclosure requirements related to debt, disclosures are now required regarding the amount of unused lines of credit and assets pledged as collateral for debt. Also, the disclosure requirements for certain terms in debt agreements are expanded, and debt disclosures regarding direct borrowings and direct placements of debt are required to be reported separately from debt disclosures regarding other debt. The PLA adopted the provisions of SGAS No. 88, effective July 1, 2018. The implementation of SGAS No. 88 did not impact the PLA’s net position or changes in net position.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial statements of the PLA are prepared in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which are similar to those for private business enterprises.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred.

Operating Revenue and Expenses

The PLA's operating revenue and expenses consist of revenue earned and expenses incurred relating to improving and operating public lighting in the City. All other revenue and expenses are reported as nonoperating revenue and expenses.

Cash Equivalents

For purposes of the statements of cash flows, the PLA considers all short-term securities with original maturities of three months or less to be cash equivalents.

Inventory

Inventory consists of lighting system materials and supplies; such assets are expensed when the materials and supplies are used. Inventory is stated at cost using the first-in, first-out method.

Capital Assets

Capital assets are recorded at historical cost. The PLA capitalizes all expenditures for infrastructure assets (which consist of a street lighting system), office equipment, vehicles, and furniture and fixtures in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, as follows:

Street lighting system	30 years
Office equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (continued)

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

Investments

The PLA's investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

Units of money market funds are valued at quoted market prices, which represent the net asset value of units held by the PLA as of the end of the year. The fair values of U.S. Treasury securities are provided by pricing services that use methods based upon market transactions for comparable securities and various relationships between securities, which are generally recognized by institutional traders.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

Fair Value Measurements

The PLA uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The PLA utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the PLA applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

The various levels of the fair value hierarchy are described as follows:

- Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the PLA has the ability to access
- Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

NOTE B — CASH DEPOSITS AND INVESTMENTS

Cash Deposits

State of Michigan (the "State") statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business, and having a place of business in the State that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the PLA's deposits may not be returned to the PLA. The PLA's management reviews bank balances and transfers funds accordingly to minimize custodial credit risk to the extent practical.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE B — CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Cash Deposits (continued)

As of June 30, 2019 and 2018, the PLA's carrying amount of deposits, its bank balances, and its bank balances that are not covered by federal depository insurance or another type of insurance, which are used as working capital, are as follows:

	<u>2019</u>	<u>2018</u>
Carrying amount of deposits	<u>\$ 10,841,224</u>	<u>\$ 28,418,811</u>
Total bank balances	<u>\$ 11,079,778</u>	<u>\$ 28,594,036</u>
Uninsured and uncollateralized bank balances	<u>\$ 10,332,053</u>	<u>\$ 27,846,311</u>

Investments

The PLA's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2019 and 2018 is summarized as follows:

	<u>Fair Value Measurements</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
2019				
Assets:				
Investments at fair value				
Money market funds	\$ 15,914,362	\$ -0-	\$ -0-	\$ 15,914,362
U.S. Treasury notes		19,958,760		19,958,760
	<u>\$ 15,914,362</u>	<u>\$ 19,958,760</u>	<u>\$ -0-</u>	<u>\$ 35,873,122</u>
2018				
Assets:				
Investments at fair value				
Money market funds	\$ 15,405,638	\$ -0-	\$ -0-	\$ 15,405,638

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE B — CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

Credit risk is the risk that the PLA will not recover its investments due to the inability of the counterparty to fulfill its obligations. State statutes authorize the PLA to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Act, and mutual funds composed entirely of the above investments.

The PLA's investment policy further limits its investment options as follows:

- Commercial paper must be rated at the time of purchase at the highest classification established by two or more standard rating services.
- Obligations of the State or any of its political subdivisions must be rated at the time of purchase as investment grade by at least one standard rating service.

The PLA's investment policy limits investment maturities to one year from the date of purchase as a means of managing its exposure to fair value losses arising from increasing interest rates.

Maturities of the PLA's debt securities as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Maturity dates of one year or less:		
U.S. Treasury notes	<u>\$ 19,958,760</u>	<u>\$ -0-</u>

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the PLA will not be able to recover the value of its investments that are in the possession of an outside party. The PLA's long-term policy is to limit the amount it may invest in any one issuer.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE B — CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

Individual investments that represent five percent or more of the PLA's total investments either as of June 30, 2019 or as of June 30, 2018, or for which credit risk or interest rate risk disclosures are required, are as follows:

	<u>2019</u>	<u>2018</u>
Investments held by the counterparty's trust department or agent in the PLA's name:		
Money market funds:		
AAAm rating from Standard & Poor's:		
BlackRock FedFund, Administrative Shares (weighted average maturity of 32 days and 34 days for 2019 and 2018, respectively)	\$ 15,754,840	\$ 15,405,638
Federated Government Obligations Fund, Institutional Shares (weighted average maturity of 30 days)	159,522	-0-

NOTE C — CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2019 and 2018 is as follows:

	<u>Construction in Progress</u>
Balance, July 1, 2017	\$ 181,514,137
Acquisitions	371,073
Transfers to street lighting system	<u>(181,885,210)</u>
Balance, June 30, 2018	<u>-0-</u>
Balance, June 30, 2019	<u>\$ -0-</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE C — CAPITAL ASSETS (CONTINUED)

Depreciable capital asset activity for the years ended June 30, 2019 and 2018 is as follows:

	Street Lighting System	Office Equipment	Furniture and Fixtures	Vehicles	Total
Cost:					
Balance, July 1, 2017	\$ -0-	\$ 553,687	\$ 88,543	\$ 150,940	\$ 793,170
Acquisitions				27,500	27,500
Transfers from construction in progress	181,885,210				181,885,210
Less: Dispositions				(54,927)	(54,927)
Balance, June 30, 2018	181,885,210	553,687	88,543	123,513	182,650,953
Acquisitions	2,574,361			124,497	2,698,858
Less: Dispositions				(42,844)	(42,844)
Balance, June 30, 2019	\$ 184,459,571	\$ 553,687	\$ 88,543	\$ 205,166	\$ 185,306,967
Accumulated Depreciation:					
Balance, July 1, 2017	\$ -0-	\$ 212,942	\$ 33,942	\$ 61,574	\$ 308,458
Depreciation expense	6,062,840	110,738	12,700	26,074	6,212,352
Less: Dispositions				(32,091)	(32,091)
Balance, June 30, 2018	6,062,840	323,680	46,642	55,557	6,488,719
Depreciation expense	6,062,840	114,033	7,253	25,205	6,209,331
Less: Dispositions				(35,200)	(35,200)
Balance, June 30, 2019	\$ 12,125,680	\$ 437,713	\$ 53,895	\$ 45,562	\$ 12,662,850
Net Depreciable Capital Assets:					
Balance, June 30, 2018	\$ 175,822,370	\$ 230,007	\$ 41,901	\$ 67,956	\$ 176,162,234
Balance, June 30, 2019	\$ 172,333,891	\$ 115,974	\$ 34,648	\$ 159,604	\$ 172,644,117

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE D — BONDS PAYABLE

On July 2, 2014, the PLA issued a series of long-term bonds payable totaling \$184,960,000. The terms of the long-term bonds require annual payments of principal and semi-annual payments of interest. The interest rate is three percent per annum, increasing to four percent per annum in 2017 and five percent per annum in 2019. A portion of the proceeds from this issuance was used to pay off \$60 million in short-term bonds payable issued by the PLA in December 2013. The terms of the short-term bonds required payments of interest only at the lesser of the London Inter-Bank Offering Rate (“LIBOR”), adjusted for a margin, or 12 percent per annum.

Interest expense on these bonds payable totaled \$8,255,294 and \$8,385,092 for the years ended June 30, 2019 and 2018, respectively.

Activity related to bonds payable for the years ended June 30, 2019 and 2018 is as follows:

	<u>Bonds Payable</u>		
	<u>Gross</u>	<u>Bond Premium</u>	<u>Net</u>
Balance, July 1, 2017	\$ 178,960,000	\$ 10,110,376	\$ 189,070,376
Less:			
Repayments	(6,365,000)		(6,365,000)
Amortization		(374,458)	(374,458)
Balance, June 30, 2018	172,595,000	9,735,918	182,330,918
Less:			
Repayments	(3,375,000)		(3,375,000)
Amortization		(374,458)	(374,458)
Balance, June 30, 2019	<u>\$ 169,220,000</u>	<u>\$ 9,361,460</u>	<u>\$ 178,581,460</u>
Amounts Due Within One Year:			
June 30, 2018	<u>\$ -0-</u>	<u>\$ 374,458</u>	<u>\$ 374,458</u>
June 30, 2019	<u>\$ -0-</u>	<u>\$ 374,458</u>	<u>\$ 374,458</u>

The PLA had an obligation to make a payment of principal and interest on July 1, 2019. This obligation was paid on June 20, 2019.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE D — BONDS PAYABLE (CONTINUED)

Maturities of the long-term bonds payable (excluding the bond premium) are as follows as of June 30, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending June 30:			
2020	\$ -0-	\$ 4,230,500	\$ 4,230,500
2021	3,545,000	8,372,375	11,917,375
2022	3,725,000	8,190,625	11,915,625
2023	3,910,000	7,999,750	11,909,750
2024	4,105,000	7,799,375	11,904,375
2025-2029	23,815,000	35,623,125	59,438,125
2030-2034	30,390,000	28,879,250	59,269,250
2035-2039	38,790,000	20,273,000	59,063,000
2040-2044	49,505,000	9,288,125	58,793,125
2045	11,435,000	285,875	11,720,875
	<u>\$ 169,220,000</u>	<u>\$ 130,942,000</u>	<u>\$ 300,162,000</u>

NOTE E — LEASES

The PLA has entered into an agreement to lease office space. The lease expires on November 30, 2019. The PLA also holds a lease for office equipment. Future minimum payments under these leases as of June 30, 2019 are as follows:

For the year ending June 30, 2020 \$ 66,042

Rental expense under all leases was \$161,821 and \$159,762 for the years ended June 30, 2019 and 2018, respectively.

NOTE F — RISK MANAGEMENT

The PLA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets, as well as inland marine insurance to cover the PLA in the event of a disaster. Due to the extent of insurance that the PLA maintains, the risk of loss to the PLA, in management's opinion, is minimal.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE G — NEW ACCOUNTING PRONOUNCEMENTS

The GASB issued SGAS No. 87, *Leases*, in June 2017. SGAS No. 87 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under SGAS No. 87 will result in all leases with a lease term of more than 12 months being accounted for in substantially the same manner as the existing accounting for capital leases. SGAS No. 87 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. SGAS No. 87 applies to the PLA's financial statements for the year ending June 30, 2021, with earlier implementation permitted. The PLA's management has not determined the impact on its financial statements as a result of implementing SGAS No. 87.