

David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Director, City Planning
Commission
Janese Chapman
Director, Historic Designation
Advisory Board

John Alexander
Megha Bamola
LaKisha Barclift, Esq.
Nur Barre
M. Rory Bolger, Ph.D., AICP
Elizabeth Cabot, Esq.
Tasha Cowen


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

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

TO: Beau Taylor, Director
Detroit Public Lighting Authority

FROM: David Whitaker, Director 
Legislative Policy Division

DATE: March 5, 2021

RE: 2021-2022 Budget Analysis

Attached is our budget analysis regarding your departments' budgets 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 **Wednesday, March 10 at 11:30 a.m.** We would then appreciate a written response to the issues/questions before or shortly after 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
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

Public Lighting Authority

FY 2021-2022 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. What type of retirement plan is provided to employees and how is it funded? Does the authority make contributions and are they up to date?
3. The \$10.5 M appropriation is a general fund transfer from PLD to the PLA for administration and maintenance costs. How much was actually received in the last three fiscal years? How is the amount received by the PLA determined?
4. When reviewing the financial statements, page 12, it is noted that the PLA received \$25.29 million from the city. Since \$12.5 million is for debt service, PLA received \$12.89 million for administration and maintenance, \$2.39 million more than the agreement? Please explain.
5. Please provide the board approved current year's operation budget and proposed budget for the upcoming fiscal year.
6. Reviewing last year's budget, within the debt service payment please explain the component, UUT Residual of \$484,000. Who is receiving that payment?
7. What capital projects are being considered in the upcoming fiscal year? What would be the funding source for those capital projects? Please elaborate.
8. What is the replacement cycle for light fixtures?
9. Are there any plans for additional lamping throughout the city? Please elaborate as to specific locations.

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2020 and 2019



PUBLIC LIGHTING AUTHORITY

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
FINANCIAL STATEMENTS:	
Statements of Net Position	8
Statements of Revenue, Expenses, and Changes in Fund Net Position	10
Statements of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	14

INDEPENDENT AUDITOR'S REPORT

November 19, 2020

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, 2020 and 2019, 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, 2020 and 2019, 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.

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 7 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 November 19, 2020 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, 2020 and 2019

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, 2020 and 2019. 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, 2020 and 2019. The PLA incurred approximately \$9,478,000 and \$9,501,000 in administrative expenses, and approximately \$8,100,000 and \$8,300,000 in expenses that primarily went to cover debt service (i.e., interest expense and bond costs), during the fiscal years ended June 30, 2020 and 2019, respectively. The PLA also incurred approximately \$5,352,000 and \$4,458,000 in expenses to operate and maintain the street lighting system during the fiscal years ended June 30, 2020 and 2019, respectively. In the current year, there was also a \$3,632,000 loss that resulted from the disposition of lights relating to Leotek, which was offset by a \$4,000,000 reimbursement.

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 8 through 13). 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.

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

June 30, 2020 and 2019

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 14, 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, 2020:

- The assets of the PLA exceeded its liabilities at the end of the fiscal year (its net position) by approximately \$39.5 million.
- The PLA's net position increased by approximately \$3.6 million, largely as the result of current-year operations.
- The PLA decreased its capital assets by approximately \$5.3 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, 2020 and 2019

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, 2020, 2019, and 2018:

Table 1
Statements of Net Position
June 30, 2020, 2019, and 2018
(in millions of dollars)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Cash and cash equivalents:			
Unrestricted	\$ 6.4	\$ 6.5	\$ 10.0
Reserved for operation and maintenance	3.6	4.4	18.4
Investments	48.3	35.9	15.4
Capital assets	167.3	172.6	176.2
Other assets	0.1	0.1	0.2
	<u>225.7</u>	<u>219.5</u>	<u>220.2</u>
Liabilities:			
Bonds payable	178.2	178.6	182.3
Other liabilities	8.0	5.0	3.0
	<u>186.2</u>	<u>183.6</u>	<u>185.3</u>
Net Position:			
Net investment in capital assets	0.4	5.2	13.1
Unrestricted	39.1	30.7	21.8
	<u>\$ 39.5</u>	<u>\$ 35.9</u>	<u>\$ 34.9</u>

The statements of net position show a net position of approximately \$39.5 million and \$35.9 million as of June 30, 2020 and 2019, respectively. That reflects an increase of approximately \$3.6 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, 2020 and 2019

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, 2020, 2019, and 2018:

Table 2
Statements of Revenue, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2020, 2019, and 2018
(in millions of dollars)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenue:			
Utility user tax allocation	\$ 12.5	\$ 12.5	\$ 12.5
Other operating revenue	<u>13.0</u>	<u>10.2</u>	<u>11.1</u>
Total Operating Revenue	<u>25.5</u>	<u>22.7</u>	<u>23.6</u>
Operating Expenses:			
Depreciation	6.4	6.2	6.2
Other operating expenses	<u>8.4</u>	<u>7.7</u>	<u>6.5</u>
Total Operating Expenses	<u>14.8</u>	<u>13.9</u>	<u>12.7</u>
Net Operating Income	10.7	8.8	10.9
Nonoperating Revenue and Expenses:			
Nonoperating revenue	1.0	0.5	0.2
Less: Nonoperating expenses	<u>(8.1)</u>	<u>(8.3)</u>	<u>(8.4)</u>
Change in Net Position	3.6	1.0	2.7
Net Position, Beginning of Year	<u>35.9</u>	<u>34.9</u>	<u>32.2</u>
Net Position, End of Year	<u>\$ 39.5</u>	<u>\$ 35.9</u>	<u>\$ 34.9</u>

The PLA's operating revenue totaled approximately \$25.5 million, an increase of approximately \$2.8 million over the prior fiscal year.

PUBLIC LIGHTING AUTHORITY

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

June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

The PLA incurred administrative expenses of approximately \$9.5 million per year for the fiscal years ended June 30, 2020 and 2019. The PLA also incurred nonoperating expenses in the amount of approximately \$8.1 million and \$8.3 million for debt service to cover the interest and issuance costs of the long-term financing for the fiscal years ended June 30, 2020 and 2019, respectively. The PLA also incurred operating and maintenance expenses for the street lights in the amount of approximately \$5.4 million and \$4.5 million for the fiscal years ended June 30, 2020 and 2019, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The PLA has constructed 67,121 street lights as of June 30, 2020, and 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 \$4.7 million and \$2.6 million for the fiscal years ended June 30, 2020 and 2019, 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.

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, 2020 and 2019

	Enterprise Funds	
	2020	2019
Assets:		
Current assets:		
Cash and cash equivalents (Note B):		
Unrestricted	\$ 6,455,187	\$ 6,458,740
Reserved for operation and maintenance	3,584,673	4,382,484
	<u>10,039,860</u>	<u>10,841,224</u>
Accounts receivable (no allowance considered necessary)	7,493	65,931
Prepaid expenses and other current assets	102,895	135,440
	<u>10,150,248</u>	<u>11,042,595</u>
Noncurrent assets:		
Investments (Note B)	48,287,310	35,873,122
Capital assets (Note C):		
Depreciable capital assets, net	167,313,300	172,644,117
	<u>215,600,610</u>	<u>208,517,239</u>
Total Assets	<u>\$ 225,750,858</u>	<u>\$ 219,559,834</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2020 and 2019

	Enterprise Funds	
	2020	2019
Liabilities:		
Current liabilities:		
Accounts payable on capital acquisitions	\$ 971,400	\$ 2,144,332
Other accounts payable and accrued expenses	205,906	239,146
Accrued interest payable	4,230,500	-0-
Advance from City of Detroit	2,600,816	2,651,379
Bonds payable due or expected to be paid within one year (Note D)	3,919,458	374,458
Total Current Liabilities	11,928,080	5,409,315
Noncurrent liabilities:		
Bonds payable due or expected to be paid in more than one year (Note D)	174,287,544	178,207,002
Total Liabilities	186,215,624	183,616,317
Net Position:		
Net investment in capital assets	375,746	5,230,263
Unrestricted	39,159,488	30,713,254
Total Net Position	\$ 39,535,234	\$ 35,943,517

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

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

For the Years Ended June 30, 2020 and 2019

	Enterprise Funds	
	2020	2019
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)	10,453,826	10,099,883
Streetscape project reimbursements from City of Detroit (Note A)	2,430,178	-0-
Other revenue	96,396	136,841
Total Operating Revenue	25,480,400	22,736,724
Operating Expenses:		
Operating and maintenance	2,856,761	4,457,623
Streetscape project	2,495,088	-0-
Salaries and wages	1,206,406	1,201,424
Payroll taxes	104,935	98,578
Employee benefits	262,436	294,737
Professional fees	855,049	1,012,167
Occupancy	209,807	223,266
Office expenses	35,984	46,640
Insurance	167,165	230,229
Community and public relations	106,930	109,922
Depreciation (Note C)	6,445,591	6,209,331
Other expenses	84,191	74,934
Total Operating Expenses	14,830,343	13,958,851
Net Operating Income	10,650,057	8,777,873
Nonoperating Revenue:		
Investment income	660,591	520,740
Gain on disposition of capital assets	367,610	5,356
Total Nonoperating Revenue	\$ 1,028,201	\$ 526,096

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, 2020 and 2019

	<u>Enterprise Funds</u>	
	<u>2020</u>	<u>2019</u>
Nonoperating Expenses:		
Interest expense (Note D)	\$ 8,086,541	\$ 8,255,294
Total Nonoperating Expenses	<u>8,086,541</u>	<u>8,255,294</u>
Change in Net Position	3,591,717	1,048,675
Net Position, Beginning of Year	<u>35,943,517</u>	<u>34,894,842</u>
Net Position, End of Year	<u><u>\$ 39,535,234</u></u>	<u><u>\$ 35,943,517</u></u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	Enterprise Funds	
	2020	2019
Cash Flows from Operating Activities:		
Cash received from City of Detroit	\$ 25,399,372	\$ 22,660,360
Cash received from other sources	88,903	136,841
Cash paid for employee compensation	(1,579,429)	(1,581,136)
Cash paid to suppliers and vendors	(6,806,018)	(5,950,154)
	17,102,828	15,265,911
Net Cash Flows from Operating Activities		
Cash Flows from Investing Activities:		
Cash paid for acquisition of investments	(17,874,282)	(32,598,366)
Proceeds received from disposition of investments	5,525,917	12,214,798
Cash received for investment income	594,765	436,824
	(11,753,600)	(19,946,744)
Net Cash Flows from Investing Activities		
Cash Flows from Capital Financing Activities:		
Cash paid on acquisition of capital assets	(5,920,093)	(905,002)
Proceeds received from sale of capital assets	-0-	13,000
Proceeds received for reimbursement of street lights	4,000,000	-0-
Payments on bonds payable	-0-	(3,375,000)
Cash paid for interest	(4,230,499)	(8,629,752)
	(6,150,592)	(12,896,754)
Net Cash Flows from Capital Financing Activities		
Change in Cash and Cash Equivalents	(801,364)	(17,577,587)
Cash and Cash Equivalents, Beginning of Year	10,841,224	28,418,811
Cash and Cash Equivalents, End of Year	\$ 10,039,860	\$ 10,841,224

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2020 and 2019

	Enterprise Funds	
	2020	2019
Schedule of Noncash Transactions:		
Acquisition of capital assets under accounts payable	<u>\$ 971,400</u>	<u>\$ 2,144,332</u>
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:		
Net operating income	\$ 10,650,057	\$ 8,777,873
Adjustments to reconcile net operating income to net cash flows from operating activities:		
Depreciation	6,445,591	6,209,331
Changes in:		
Accounts receivable	58,438	(65,931)
Prepaid expenses and other current assets	32,545	36,591
Other accounts payable and accrued expenses	(33,240)	181,639
Advance from City of Detroit	<u>(50,563)</u>	<u>126,408</u>
Net Cash Flows from Operating Activities	<u>\$ 17,102,828</u>	<u>\$ 15,265,911</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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. Furthermore, the PLA has also been reimbursed by the City for costs incurred in a streetscape project. As of June 30, 2020 and 2019, the PLA had \$-0- and \$65,931, respectively, in accounts receivable due from the City.

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.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

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

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

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).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

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

Investments (continued)

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.

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

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

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

Fair Value Measurements (continued)

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.

As of June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Carrying amount of deposits	<u>\$ 10,039,860</u>	<u>\$ 10,841,224</u>
Total bank balances	<u>\$ 10,085,893</u>	<u>\$ 11,079,778</u>
Uninsured and uncollateralized bank balances	<u>\$ 9,335,893</u>	<u>\$ 10,332,053</u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE B — CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The PLA's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2020 and 2019 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>
2020				
Assets:				
Investments at fair value:				
Money market funds	\$ 24,544,558	\$ -0-	\$ -0-	\$ 24,544,558
U.S. Treasury notes		23,742,752		23,742,752
	<u>\$ 24,544,558</u>	<u>\$ 23,742,752</u>	<u>\$ -0-</u>	<u>\$ 48,287,310</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>

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.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE B — CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Maturity dates of one year or less:		
U.S. Treasury notes	<u>\$ 23,742,752</u>	<u>\$ 19,958,760</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.

Individual investments that represent five percent or more of the PLA's total investments either as of June 30, 2020 or as of June 30, 2019, or for which credit risk or interest rate risk disclosures are required, are as follows:

	<u>2020</u>	<u>2019</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 39 days and 32 days for 2020 and 2019, respectively)	\$ 23,788,356	\$ 15,754,840

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE B — CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

	<u>2020</u>	<u>2019</u>
Investments held by the counterparty's trust department or agent in the PLA's name (continued):		
Money market funds (continued):		
AAAm rating from Standard & Poor's (continued):		
Federated Government Obligations Fund, Institutional Shares (weighted average maturity of 40 days and 30 days for 2020 and 2019, respectively)	\$ 756,202	\$ 159,522

NOTE C — CAPITAL ASSETS

Depreciable capital asset activity for the years ended June 30, 2020 and 2019 is as follows:

	<u>Street Lighting System</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Vehicles</u>	<u>Total</u>
Cost:					
Balance, July 1, 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
Acquisitions	4,671,512	25,938	27,840		4,725,290
Less: Dispositions	(3,974,880)				(3,974,880)
Balance, June 30, 2020	\$ 185,156,203	\$ 579,625	\$ 116,383	\$ 205,166	\$ 186,057,377

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE C — CAPITAL ASSETS (CONTINUED)

	<u>Street Lighting System</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Vehicles</u>	<u>Total</u>
Accumulated Depreciation:					
Balance, July 1, 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
Depreciation expense	6,302,740	87,729	14,781	40,341	6,445,591
Less: Dispositions	(364,364)				(364,364)
Balance, June 30, 2020	\$ 18,064,056	\$ 525,442	\$ 68,676	\$ 85,903	\$ 18,744,077
Net Depreciable Capital Assets:					
Balance, June 30, 2019	\$ 172,333,891	\$ 115,974	\$ 34,648	\$ 159,604	\$ 172,644,117
Balance, June 30, 2020	\$ 167,092,147	\$ 54,183	\$ 47,707	\$ 119,263	\$ 167,313,300

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 \$8,086,541 and \$8,255,294 for the years ended June 30, 2020 and 2019, respectively.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE D — BONDS PAYABLE (CONTINUED)

Activity related to bonds payable for the years ended June 30, 2020 and 2019 is as follows:

	<u>Bonds Payable</u>		
	<u>Gross</u>	<u>Bond Premium</u>	<u>Net</u>
Balance, July 1, 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	169,220,000	9,361,460	178,581,460
Less:			
Amortization		(374,458)	(374,458)
Balance, June 30, 2020	\$ 169,220,000	\$ 8,987,002	\$ 178,207,002
Amounts Due Within One Year:			
June 30, 2019	\$ -0-	\$ 374,458	\$ 374,458
June 30, 2020	\$ 3,545,000	\$ 374,458	\$ 3,919,458

Maturities of the long-term bonds payable (excluding the bond premium) are as follows as of June 30, 2020:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending June 30:			
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	4,310,000	7,589,000	11,899,000
2026-2030	25,005,000	34,402,625	59,407,625
2031-2035	31,910,000	27,321,750	59,231,750
2036-2040	40,730,000	18,285,000	59,015,000
2041-2045	51,980,000	6,751,000	58,731,000
	\$ 169,220,000	\$ 126,711,500	\$ 295,931,500

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE E — LEASES

The PLA has entered into an agreement to lease office space. The lease expires on February 28, 2025. The PLA also holds a lease for office equipment. Future minimum payments under these leases as of June 30, 2020 are as follows:

For the Years Ending June 30:	
2021	\$ 93,388
2022	94,590
2023	95,793
2024	96,995
2025	<u>66,332</u>
	<u>\$ 447,098</u>

Rental expense under all leases was \$125,855 and \$161,821 for the years ended June 30, 2020 and 2019, 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.

NOTE G — CONTINGENCIES

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date that the accompanying financial statements were available to be issued. As such, it is uncertain as to the full magnitude that the pandemic will have on the PLA's financial condition, liquidity, and future results of operations. The PLA's operations are heavily dependent on the utility user tax allocation, as well as the operation and management fees, received from the City.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE G — CONTINGENCIES (CONTINUED)

The COVID-19 outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of regional economic slowdown. This situation may potentially hinder the City's ability to provide timely payments of the utility user tax allocation, as well as the operation and management fees, to the PLA. However, as of the date that the accompanying financial statements were available to be issued, the PLA's management considers its financial position to be relatively stable.

Although the PLA cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material effect on the PLA's results of future operations, financial position, and liquidity during the year ending June 30, 2021.

NOTE H — NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards ("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, 2022, 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.