

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2014 and 2013



**GEORGE JOHNSON
& COMPANY**

Certified Public Accountants and Consultants

PUBLIC LIGHTING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

September 16, 2014

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, ("the City") as of June 30, 2014 and 2013, and for the year ended June 30, 2014 and the period from April 5, 2013 (date of inception) through June 30, 2013, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (continued)

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.

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, 2014 and 2013, and the changes in financial position and cash flows thereof for the year ended June 30, 2014 and the period from April 5, 2013 (date of inception) through June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

Uncertainty Regarding City of Detroit, Michigan Bankruptcy Filing

On July 18, 2013, the City filed a petition under Chapter 9 of the United States Bankruptcy Code seeking to adjust the timing and payment of amounts associated with the City's obligations. As discussed in Note A to the financial statements, there is considerable uncertainty associated with this process. 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 4 through 9 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.

Board of Directors
Public Lighting Authority
September 16, 2014
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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 16, 2014, 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, 2014 and 2013

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 year that ended on June 30, 2014 and the fiscal period that began on April 5, 2013, the date of the PLA’s inception, and ended on June 30, 2013. 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 anticipates making 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, in future fiscal years, will be funded through the sale of approximately \$160 to \$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 \$1.2 million and a \$17.5 million allocation of utility user tax from the City to fund start-up activities and street light construction for the fiscal period from April 5, 2013 through June 30, 2013 and the fiscal year ended June 30, 2014, respectively. The PLA incurred approximately \$162,000 in expenses that primarily went to cover professional fees (i.e., legal and public relations) incurred during this start-up phase for the fiscal period from April 5, 2013 through June 30, 2013 and incurred approximately \$1,305,000 in administrative expenses and \$1,502,000 in expenses that primarily went to cover debt service (i.e., interest expense and bond issuance costs) during the fiscal year ended June 30, 2014. The PLA hired an Executive Director and other support staff and began to undertake activities to repair the City’s street lighting system during the fiscal year ended June 30, 2014. The PLA finalized a short-term financing in the amount of \$60 million during the fiscal year ended June 30, 2014 and, on July 2, 2014, a long-term financing in the amount of \$185 million bond for 30 years to construct approximately 65,000 street lights in the City of Detroit.

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

June 30, 2014 and 2013

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 10 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. 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, 2014:

- The assets of the PLA exceeded its liabilities at the end of the fiscal year (its net position) by approximately \$16.5 million.
- The PLA's net position increased by approximately \$15.5 million as the result of current-year operations.
- The PLA increased its capital assets by approximately \$19.2 million, which is primarily due to the construction of new street lights.

Because the PLA began active operations during the period from April 5, 2013 through June 30, 2013, comparisons of financial results with those of the year ended June 30, 2012 cannot be provided.

PUBLIC LIGHTING AUTHORITY

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

June 30, 2014 and 2013

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1 reflects the condensed statements of net position as of June 30, 2014 and 2013:

Table 1
Statements of Net Position
June 30, 2014 and 2013
(in millions of dollars)

	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$ 15.5	\$ 1.1
Investments	52.4	-0-
Capital assets	19.2	-0-
Other assets	0.8	-0-
	<u>87.9</u>	<u>1.1</u>
Total Assets		
Liabilities:		
Bonds payable	60.0	-0-
Other liabilities	11.4	0.1
	<u>71.4</u>	<u>0.1</u>
Total Liabilities		
Net Position:		
Net investment in capital assets	8.1	-0-
Unrestricted	8.4	1.0
	<u>16.5</u>	<u>1.0</u>
Total Net Position		

The statements of net position show an unrestricted net position of approximately \$8.4 million and \$1.0 million as of June 30, 2014 and 2013, respectively. That reflects an increase of approximately \$7.4 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, 2014 and 2013

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects the condensed statement of revenue, expenses, and changes in fund net position for the year ended June 30, 2014 and the period from April 5, 2013 through June 30, 2013:

Table 2
Statements of Revenue, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2014 and the Period from April 5, 2013
(Date of Inception) through June 30, 2013
(in millions of dollars)

	<u>2014</u>	<u>2013</u>
Operating Revenue	\$ 18.3	\$ 1.2
Operating Expenses	<u>1.3</u>	<u>0.2</u>
Net Operating Income	17.0	1.0
Nonoperating Expenses	<u>1.5</u>	<u>-0-</u>
Net Increase in Net Position	15.5	1.0
Net Position, Beginning of Period	<u>1.0</u>	<u>-0-</u>
Net Position, End of Period	<u>\$ 16.5</u>	<u>\$ 1.0</u>

The PLA’s revenue totaled approximately \$18.3 million, an increase of approximately \$17.1 million over the prior fiscal year. This increase is primarily the result of a collection of utility user tax from the City, compared to the previous year, which was a start-up year for the PLA. The PLA incurred operating expenses of approximately \$162,000 and \$1.3 million for the fiscal period from April 5, 2013 through June 30, 2013 and the fiscal year ended June 30, 2014, respectively. The PLA also incurred nonoperating expenses in the amount of approximately \$1.5 million for debt service to cover the interest and issuance costs of the short-term financing for the fiscal year ended June 30, 2014.

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

June 30, 2014 and 2013

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The PLA has constructed 16,000 street lights as of June 30, 2014, and has finalized a short-term financing of \$60 million on December 13, 2013 and 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 \$19 million for the fiscal year ended June 30, 2014.

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.

On July 18, 2013, the City filed for Chapter 9 bankruptcy protection, which threatened the PLA's ability to access the credit markets because the PLA's revenue originates from a City-imposed tax. This situation notwithstanding, the PLA finalized the terms of a short-term, variable rate, \$60 million facility with Citibank, N.A. Pursuant to those terms, the City was requested to seek the approval of the United States Bankruptcy Court ("the Bankruptcy Court") for the underlying structure of the financing. On December 6, 2013, the Bankruptcy Court ruled that the \$12.5 million utility user tax revenue dedicated to the PLA was not a part of City assets subject to inclusion in the City's plan of adjustment, and that the underlying deal between the City and the PLA was negotiated in good faith, thus extending protection to the purchasers of the PLA bonds pursuant to 11 U.S.C. 364.

Thus, the economic factors regarding the funding source for the PLA is solidified and/or secured by the Bankruptcy Court ruling despite any future rulings of the Bankruptcy Court regarding matters of the City pursuant to section 364(e) of the United States Bankruptcy Code.

Furthermore, the said \$12.5 million revenue source has been utilized to secure approximately \$160 to \$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 light construction 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 construction of the street lights 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, 2014 and 2013

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 financial department at 65 Cadillac Square, Suite 2900, Detroit, Michigan 48226.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	Enterprise Funds	
	2014	2013
Assets:		
Current assets:		
Cash (Note B)	\$ 15,531,767	\$ 1,100,807
Accounts receivable (no allowance considered necessary)	757,500	-0-
Prepaid expenses	-0-	600
Total Current Assets	16,289,267	1,101,407
Noncurrent assets:		
Investments (Note B)	52,349,183	-0-
Capital assets (Note C):		
Nondepreciable capital assets	19,190,049	-0-
Depreciable capital assets, net	37,031	-0-
Total Noncurrent Assets	71,576,263	-0-
Total Assets	87,865,530	1,101,407
Liabilities:		
Current liabilities:		
Accounts payable on capital acquisitions	11,102,081	-0-
Other accounts payable and accrued expenses	221,952	62,956
Bonds payable (Note D)	60,000,000	-0-
Total Liabilities	71,324,033	62,956
Net Position:		
Net investment in capital assets	8,124,999	-0-
Unrestricted	8,416,498	1,038,451
Total Net Position	\$ 16,541,497	\$ 1,038,451

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

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

For the Year Ended June 30, 2014 and the Period from April 5, 2013
(Date of Inception) through June 30, 2013

	<u>Enterprise Funds</u>	
	<u>2014</u>	<u>2013</u>
Operating Revenue:		
Utility user tax allocation from City of Detroit (Note A)	\$ 17,549,994	\$ 1,200,000
Operation and management fees	757,500	-0-
Other revenue	1,000	-0-
Total Operating Revenue	18,308,494	1,200,000
Operating Expenses:		
Salaries and wages	382,818	-0-
Payroll taxes	32,227	-0-
Employee benefits	61,612	-0-
Professional fees	439,666	151,364
Occupancy	51,527	-0-
Office expenses	36,413	-0-
Insurance	36,433	-0-
Community and public relations	156,686	-0-
Depreciation (Note C)	5,050	-0-
Other expenses	102,551	10,185
Total Operating Expenses	1,304,983	161,549
Net Operating Income	17,003,511	1,038,451
Nonoperating Revenue:		
Investment income	1,660	-0-
Total Nonoperating Revenue	1,660	-0-
Nonoperating Expenses:		
Interest expense (Note D)	585,489	-0-
Bond issuance costs	916,636	-0-
Total Nonoperating Expenses	1,502,125	-0-
Net Increase in Net Position	15,503,046	1,038,451
Net Position, Beginning of Period	1,038,451	-0-
Net Position, End of Period	\$ 16,541,497	\$ 1,038,451

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS

**For the Year Ended June 30, 2014 and the Period from April 5, 2013
(Date of Inception) through June 30, 2013**

	Enterprise Funds	
	2014	2013
Cash Flows from Operating Activities:		
Cash received from City of Detroit	\$ 17,550,994	\$ 1,200,000
Cash paid for employee compensation	(460,654)	-0-
Cash paid to suppliers and vendors	(679,683)	(99,193)
	<u>16,410,657</u>	<u>1,100,807</u>
Net Cash Provided by Operating Activities		
	16,410,657	1,100,807
Cash Flows from Investing Activities:		
Cash paid for acquisition of investments	(52,349,183)	-0-
Cash received for investment income	1,660	-0-
	<u>(52,347,523)</u>	<u>-0-</u>
Net Cash Used by Investing Activities		
	(52,347,523)	-0-
Cash Flows from Capital Financing Activities:		
Cash paid on acquisition of capital assets	(8,130,049)	-0-
Proceeds received from issuance of bonds payable	60,000,000	-0-
Cash paid for interest	(585,489)	-0-
Cash paid for bond issuance costs	(916,636)	-0-
	<u>50,367,826</u>	<u>-0-</u>
Net Cash Provided by Capital Financing Activities		
	50,367,826	-0-
Net Increase in Cash	14,430,960	1,100,807
Cash Balance, Beginning of Period	<u>1,100,807</u>	<u>-0-</u>
Cash Balance, End of Period	<u>\$ 15,531,767</u>	<u>\$ 1,100,807</u>
Schedule of Noncash Transactions:		
Acquisition of capital assets under accounts payable	<u>\$ 11,102,081</u>	<u>\$ -0-</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

**For the Year Ended June 30, 2014 and the Period from April 5, 2013
(Date of Inception) through June 30, 2013**

	Enterprise Funds	
	2014	2013
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:		
Net operating income	\$ 17,003,511	\$ 1,038,451
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	5,050	-0-
(Increase) decrease in:		
Accounts receivable	(757,500)	-0-
Prepaid expenses	600	(600)
Increase in accounts payable and accrued expenses	158,996	62,956
	<u>16,410,657</u>	<u>1,100,807</u>
Net Cash Provided by Operating Activities	<u>\$ 16,410,657</u>	<u>\$ 1,100,807</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 anticipates making 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 will be 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 the period from April 5, 2013 through June 30, 2013, the PLA received a \$1.2 million allocation of utility user tax from the City to fund start-up activities.

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.

On July 18, 2013, the City filed a petition under Chapter 9 of the United States Bankruptcy Code seeking to adjust the timing and payment of amounts associated with the City’s obligations. A trial in the United States Bankruptcy Court (“the Bankruptcy Court”) to consider the City’s eligibility for bankruptcy commenced on October 23, 2013. Although the PLA is a component unit of the City, the PLA is a separate legal entity, and the funds held by separate legal entities are not expected to be subject to the bankruptcy process.

In addition, the PLA finalized the terms of a short-term, variable rate, \$60 million facility with Citibank, N.A. Pursuant to those terms, the City was requested to seek the approval of the Bankruptcy Court for the underlying structure of the financing. On December 6, 2013, the Bankruptcy Court ruled that the \$12.5 million utility user tax revenue dedicated to the PLA was not a part of City assets subject to inclusion in the City’s plan of adjustment, and that the underlying deal between the City and the PLA was negotiated in good faith, thus extending protection to the purchasers of the PLA bonds.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

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

Nature of Activities and Purpose (continued)

For these reasons, the PLA's management anticipates that the PLA will be able to continue operations.

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

Capital Assets

Capital assets are recorded at historical cost. The PLA capitalizes all expenditures for lighting systems, office equipment, 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:

Office equipment	5 years
Furniture and fixtures	7 years

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

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.

As of June 30, 2014, the PLA has incurred costs for lighting systems that had not been placed into service as of that date. Such costs have been reflected in the accompanying financial statements as construction in progress and have not been depreciated as of June 30, 2014.

NOTE B - CASH DEPOSITS AND INVESTMENTS

Cash Deposits

State of Michigan 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 of Michigan 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, 2014 and 2013, 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>2014</u>	<u>2013</u>
Carrying amount of deposits	<u>\$ 15,531,767</u>	<u>\$ 1,100,807</u>
Total bank balances	<u>\$ 15,548,236</u>	<u>\$ 1,100,807</u>
Uninsured and uncollateralized bank balances	<u>\$ 15,297,308</u>	<u>\$ 850,807</u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Investments are recorded at fair value, based on quoted market prices. As of June 30, 2014 and 2013, the PLA's investments are classified as follows:

	<u>2014</u>	<u>2013</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:		
Wilmington U.S. Government Money Market Fund, Institutional Class		
(weighted average maturity of 45 days)	<u>\$ 52,349,183</u>	<u>\$ -0-</u>

The PLA's investments were held in one money market fund as of June 30, 2014 due to the imminent repayment of the short-term bonds payable (see Note D).

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 of Michigan 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 of Michigan 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.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

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. Investments that represent five percent or more of the PLA's total investments are identified in the preceding schedule.

NOTE C - CAPITAL ASSETS

Nondepreciable capital asset activity for the year ended June 30, 2014 and the period from April 5, 2013 through June 30, 2013 is as follows:

	<u>Construction in Progress</u>
Balance, April 5, 2013	\$ -0-
Balance, June 30, 2013	-0-
Acquisitions	<u>19,190,049</u>
Balance, June 30, 2014	<u>\$ 19,190,049</u>

Depreciable capital asset activity for the year ended June 30, 2014 and the period from April 5, 2013 through June 30, 2013 is as follows:

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Cost:			
Balance, April 5, 2013	\$ -0-	\$ -0-	\$ -0-
Balance, June 30, 2013	-0-	-0-	-0-
Acquisitions	<u>22,176</u>	<u>19,905</u>	<u>42,081</u>
Balance, June 30, 2014	<u>\$ 22,176</u>	<u>\$ 19,905</u>	<u>\$ 42,081</u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

NOTE C - CAPITAL ASSETS (CONTINUED)

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Accumulated Depreciation:			
Balance, April 5, 2013	\$ -0-	\$ -0-	\$ -0-
Balance, June 30, 2013	-0-	-0-	-0-
Depreciation expense	2,920	2,130	5,050
Balance, June 30, 2014	\$ 2,920	\$ 2,130	\$ 5,050
Net Depreciable Capital Assets:			
Balance, June 30, 2013	\$ -0-	\$ -0-	\$ -0-
Balance, June 30, 2014	<u>\$ 19,256</u>	<u>\$ 17,775</u>	<u>\$ 37,031</u>

NOTE D – BONDS PAYABLE

The PLA issued \$60 million in short-term bonds payable in December 2013 for purposes of conducting its operations and financing the improvement of the City’s public lighting system. The terms of the bonds require 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 the bonds payable totaled \$585,489 for the year ended June 30, 2014.

Activity related to bonds payable for the year ended June 30, 2014 and the period from April 5, 2013 through June 30, 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ -0-	\$ -0-
Additions	<u>60,000,000</u>	<u>-0-</u>
Balance, End of Year	<u>\$ 60,000,000</u>	<u>\$ -0-</u>

On July 2, 2014, the PLA issued a series of long-term bonds payable totaling \$184,960,000. A portion of the proceeds from this issuance was used to pay off the short-term bonds payable.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

NOTE D – BONDS PAYABLE (CONTINUED)

Maturities of the long-term bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending June 30:			
2015	\$ 2,970,000	\$ 9,039,171	\$ 12,009,171
2016	3,030,000	8,975,250	12,005,250
2017	3,120,000	8,884,350	12,004,350
2018	3,245,000	8,759,550	12,004,550
2019	3,375,000	8,629,750	12,004,750
2020-2024	19,595,000	40,441,000	60,036,000
2025-2029	25,005,000	35,027,750	60,032,750
2030-2034	31,910,000	28,119,500	60,029,500
2035-2039	40,730,000	19,303,250	60,033,250
2040-2044	51,980,000	8,050,500	60,030,500
	<u><u>\$ 184,960,000</u></u>	<u><u>\$ 175,230,071</u></u>	<u><u>\$ 360,190,071</u></u>

NOTE E - LEASES

Effective August 1, 2013, the PLA entered into an agreement to lease office space. The lease expires on July 31, 2016.

Future minimum payments due under this lease are as follows:

For the Years Ending June 30:	
2015	\$ 43,268
2016	44,870
2017	3,739
	<u><u>\$ 91,877</u></u>

Rental expense under this lease was \$31,439 for the year ended June 30, 2014.

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. Due to the extent of insurance that the PLA maintains, the risk of loss to the PLA, in management's opinion, is minimal.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

September 16, 2014

To the Board of Directors
Public Lighting Authority

We have audited, 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, the financial statements of the business-type activities of the Public Lighting Authority (“the PLA”), as of, and for the year ended, June 30, 2014, and the related notes to the financial statements, which comprise the PLA’s basic financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the PLA’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PLA’s internal control. Accordingly, we do not express an opinion on the effectiveness of the PLA’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the PLA’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

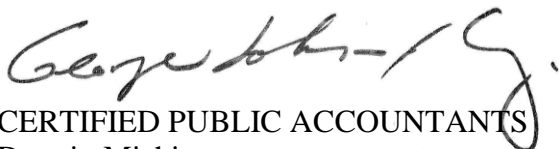
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
(CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PLA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PLA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PLA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan