

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2016 and 2015



PUBLIC LIGHTING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

September 19, 2016

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, 2016 and 2015, 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, 2016 and 2015, 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, 2015, the PLA has adopted the fair value measurement and disclosure provisions contained in Statement of Governmental Accounting Standards No. 72, *Fair Value Measurement and Application*. 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 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 September 19, 2016, 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, 2016 and 2015

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, 2016 and 2015. 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 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, 2016 and 2015. The PLA incurred approximately \$4,726,000 and \$3,276,000 in administrative expenses, and approximately \$8,600,000 and \$11,117,000 in expenses that primarily went to cover debt service (i.e., interest expense and bond issuance costs), during the fiscal years ended June 30, 2016 and 2015, respectively. The PLA also incurred approximately \$3,432,000 and \$2,314,000 in expenses to operate and maintain the street lighting system during the fiscal years ended June 30, 2016 and 2015, 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 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, 2016 and 2015

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, 2016:

- The assets of the PLA exceeded its liabilities at the end of the fiscal year (its net position) by approximately \$24.9 million.
- The PLA's net position increased by approximately \$5.8 million as the result of current-year operations.
- The PLA increased its capital assets by approximately \$60.8 million, which is primarily due to the construction of new street lights.

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

June 30, 2016 and 2015

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, 2016, 2015, and 2014:

Table 1
Statements of Net Position
June 30, 2016, 2015, and 2014
(in millions of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Cash	\$ 19.2	\$ 12.0	\$ 15.5
Investments	64.4	132.0	52.4
Capital assets	140.8	80.0	19.2
Other assets	0.4	1.3	0.8
	<u>224.8</u>	<u>225.3</u>	<u>87.9</u>
Total Assets			
Liabilities:			
Bonds payable	189.4	195.8	60.0
Other liabilities	10.5	10.4	11.4
	<u>199.9</u>	<u>206.2</u>	<u>71.4</u>
Total Liabilities			
Net Position:			
Net investment in capital assets	131.1	74.4	8.1
Unrestricted	(106.2)	(55.3)	8.4
	<u>\$ 24.9</u>	<u>\$ 19.1</u>	<u>\$ 16.5</u>
Total Net Position			

The statements of net position show a net position of approximately \$24.9 million and \$19.1 million as of June 30, 2016 and 2015, respectively. That reflects an increase of approximately \$5.8 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, 2016 and 2015

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, 2016, 2015, and 2014:

Table 2
Statements of Revenue, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2016, 2015, and 2014
(in millions of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenue	\$ 22.1	\$ 19.2	\$ 18.3
Operating Expenses	<u>8.2</u>	<u>5.6</u>	<u>1.3</u>
Net Operating Income	13.9	13.6	17.0
Nonoperating Revenue	0.5	0.1	-0-
Nonoperating Expenses	<u>8.6</u>	<u>11.1</u>	<u>1.5</u>
Net Increase in Net Position	5.8	2.6	15.5
Net Position, Beginning of Year	<u>19.1</u>	<u>16.5</u>	<u>1.0</u>
Net Position, End of Year	<u>\$ 24.9</u>	<u>\$ 19.1</u>	<u>\$ 16.5</u>

The PLA’s operating revenue totaled approximately \$22.1 million, an increase of approximately \$3 million over the prior fiscal year. This increase is primarily the result of a collection of operation and maintenance reimbursements from the City and DTE Energy incentives for the LED lights, compared to the previous year. The PLA incurred administrative expenses of approximately \$4.7 million and \$3.3 million for the fiscal years ended June 30, 2016 and 2015, respectively. The PLA also incurred nonoperating expenses in the amount of approximately \$8.6 million and \$11.1 million for debt service to cover the interest and issuance costs of the long-term financing for the fiscal years ended June 30, 2016 and 2015, respectively. The PLA also incurred operating and maintenance expenses for the street lights in the amount of \$3.4 million and \$2.3 million for the fiscal years ended June 30, 2016 and 2015, respectively.

PUBLIC LIGHTING AUTHORITY

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

June 30, 2016 and 2015

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The PLA has constructed 62,565 street lights as of June 30, 2016, 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 \$61 million and \$60 million for the fiscal years ended June 30, 2016 and 2015, 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 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.

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, 2016 and 2015

	Enterprise Funds	
	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents (Note B)	\$ 19,244,908	\$ 12,002,453
Accounts receivable (no allowance considered necessary)	-0-	598,849
Inventory (Note A)	199,878	-0-
Prepaid expenses	196,953	713,208
Total Current Assets	19,641,739	13,314,510
Noncurrent assets:		
Investments (Note B)	64,449,711	132,041,868
Capital assets (Note C):		
Nondepreciable capital assets	140,147,579	79,459,024
Depreciable capital assets, net	600,324	494,217
Total Noncurrent Assets	205,197,614	211,995,109
Total Assets	\$ 224,839,353	\$ 225,309,619

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2016 and 2015

	Enterprise Funds	
	2016	2015
Liabilities:		
Current liabilities:		
Accounts payable on capital acquisitions	\$ 9,627,941	\$ 5,525,134
Other accounts payable and accrued expenses	886,990	324,594
Accrued interest payable	-0-	4,532,175
Bonds payable due or expected to be paid within one year (Note D)	374,458	3,344,458
Total Current Liabilities	10,889,389	13,726,361
Noncurrent liabilities:		
Bonds payable due or expected to be paid in more than one year (Note D)	189,070,376	192,474,834
Total Liabilities	199,959,765	206,201,195
Net Position:		
Net investment in capital assets	131,119,962	74,428,107
Unrestricted	(106,240,374)	(55,319,683)
Total Net Position	\$ 24,879,588	\$ 19,108,424

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

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

For the Years Ended June 30, 2016 and 2015

	Enterprise Funds	
	2016	2015
Operating Revenue:		
Utility user tax allocation from the City of Detroit (Note A)	\$ 12,500,000	\$ 12,500,000
Operation and management fees from the City of Detroit (Note A)	8,886,743	5,527,177
Other revenue	684,637	1,180,465
	22,071,380	19,207,642
Operating Expenses:		
Operating and maintenance	3,431,910	2,313,564
Salaries and wages	2,672,051	1,577,550
Payroll taxes	195,147	138,613
Employee benefits	435,074	253,546
Professional fees	589,508	436,792
Occupancy	237,909	163,423
Office expenses	77,504	67,330
Insurance	142,282	234,282
Community and public relations	151,517	208,023
Depreciation (Note C)	133,108	50,216
Other expenses	91,568	146,482
	8,157,578	5,589,821
Net Operating Income	\$ 13,913,802	\$ 13,617,821

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, 2016 and 2015

	Enterprise Funds	
	2016	2015
Nonoperating Revenue:		
Investment income	\$ 458,154	\$ 65,856
Total Nonoperating Revenue	458,154	65,856
Nonoperating Expenses:		
Interest expense (Note D)	8,600,792	8,997,509
Bond issuance costs	-0-	2,119,241
Total Nonoperating Expenses	8,600,792	11,116,750
Net Increase in Net Position	5,771,164	2,566,927
Net Position, Beginning of Year	19,108,424	16,541,497
Net Position, End of Year	\$ 24,879,588	\$ 19,108,424

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	Enterprise Funds	
	2016	2015
Cash Flows from Operating Activities:		
Cash received from City of Detroit	\$ 21,569,056	\$ 18,602,364
Cash received from other sources	1,101,173	763,929
Cash paid for employee compensation	(3,324,144)	(1,886,595)
Cash paid to suppliers and vendors	(3,821,553)	(4,263,576)
	15,524,532	13,216,122
Cash Flows from Investing Activities:		
Cash paid for acquisition of investments	(214,429,644)	(79,692,685)
Proceeds received from disposition of investments	282,021,801	-0-
Cash received for investment income	458,154	65,856
	68,050,311	(79,626,829)
Cash Flows from Capital Financing Activities:		
Cash paid on acquisition of capital assets	(56,824,963)	(66,353,324)
Proceeds received from issuance of bonds payable	-0-	195,025,411
Payments on bonds payable	(6,000,000)	(60,000,000)
Cash paid for interest	(13,507,425)	(4,839,792)
Cash paid for bond issuance costs	-0-	(950,902)
	\$ (76,332,388)	\$ 62,881,393

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2016 and 2015

	Enterprise Funds	
	2016	2015
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 7,242,455	\$ (3,529,314)
Cash and Cash Equivalents Balance, Beginning of Year	12,002,453	15,531,767
Cash and Cash Equivalents Balance, End of Year	\$ 19,244,908	\$ 12,002,453
Schedule of Noncash Transactions:		
Acquisition of capital assets under accounts payable	\$ 9,627,941	\$ 5,525,134
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:		
Net operating income	\$ 13,913,802	\$ 13,617,821
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	133,108	50,216
(Increase) decrease in:		
Accounts receivable	598,849	158,651
Inventory	(199,878)	-0-
Prepaid expenses	516,255	(713,208)
Increase in other accounts payable and accrued expenses	562,396	102,642
Net Cash Provided by Operating Activities	\$ 15,524,532	\$ 13,216,122

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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 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, 2016 and 2015, the PLA had \$-0- and \$182,313, respectively, in accounts receivable due from the City.

Adoption of New Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards (“SGAS”) No. 72, *Fair Value Measurement and Application*. SGAS No. 72 defines “fair value,” establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The PLA adopted the provisions of SGAS No. 72, effective July 1, 2015. The implementation of SGAS No. 72 did not impact the PLA’s net position or changes in net position.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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 lighting systems, 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:

Office equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016 and 2015, the PLA has incurred costs for lighting systems that had not been fully completed as of those dates. Such costs have been reflected in the accompanying financial statements as construction in progress and have not been depreciated as of June 30, 2016 or 2015.

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 and municipal bonds 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 value of U.S. government agency bonds is based upon independent pricing services, which generally includes inputs such as expected future cash flows, current market yields, prepayment expectations, reported trades, issuer spreads, bids, offers, credit quality, industry events, and economic events.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Fair Value Measurements (continued)

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

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.

Reclassifications

Certain reclassifications have been made to the accompanying financial statements as of, and for the year ended, June 30, 2015 to conform to classifications used as of, and for the year ended, June 30, 2016.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016 and 2015, 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>2016</u>	<u>2015</u>
Carrying amount of deposits	\$ 19,244,908	\$ 12,002,453
Total bank balances	<u>\$ 15,038,795</u>	<u>\$ 15,479,872</u>
Uninsured and uncollateralized bank balances	<u>\$ 14,336,888</u>	<u>\$ 14,729,872</u>

Investments

The PLA’s fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2016 and 2015 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>
2016				
Assets:				
Investments at fair value:				
Money market funds	\$ 64,449,682	\$ -0-	\$ -0-	\$ 64,449,682
Municipal bonds	29			29
	<u>\$ 64,449,711</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 64,449,711</u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

	<u>Fair Value Measurements</u>			<u>Total</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>	
2015				
Assets:				
Investments at fair value:				
Money market funds	\$ 52,946,709	\$ -0-	\$ -0-	\$ 52,946,709
U.S. government agency bonds		79,095,129		79,095,129
Municipal bonds	30			30
	<u>\$ 52,946,739</u>	<u>\$ 79,095,129</u>	<u>\$ -0-</u>	<u>\$ 132,041,868</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.

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.

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.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016 or as of June 30, 2015, or for which credit risk or interest rate risk disclosures are required, are as follows:

	<u>2016</u>	<u>2015</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 40 days and 34 days for 2016 and 2015, respectively)	\$ 29,750,734	\$ 28,882,373
PFM Money Market Funds, Government Shares (weighted average maturity of 49 days and 35 days for 2016 and 2015, respectively)	34,698,948	17,585,595
BlackRock New York Money Fund, Institutional Shares (weighted average maturity of 39 days for 2015)	-0-	6,478,741
U.S. government agency bonds:		
AA+ rating from Standard & Poor's:		
Federal Home Loan Mortgage Corporation:		
Maturity date July 17, 2015	-0-	14,412,332
Federal Home Loan Bank:		
Maturity date August 28, 2015	-0-	14,966,433
Maturity date November 20, 2015	-0-	19,914,266
Federal National Mortgage Association:		
Maturity date September 28, 2015	-0-	14,946,160
Maturity date October 26, 2015	-0-	14,855,938

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2016 and 2015 is as follows:

	<u>Construction in Progress</u>
Balance, July 1, 2014	\$ 19,190,049
Acquisitions	<u>60,268,975</u>
Balance, June 30, 2015	79,459,024
Acquisitions	<u>60,688,555</u>
Balance, June 30, 2016	<u>\$ 140,147,579</u>

Depreciable capital asset activity for the years ended June 30, 2016 and 2015 is as follows:

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Vehicles</u>	<u>Total</u>
Cost:				
Balance, July 1, 2014	\$ 22,176	\$ 19,905	\$ -0-	\$ 42,081
Acquisitions	<u>272,280</u>	<u>62,473</u>	<u>172,649</u>	<u>507,402</u>
Balance, June 30, 2015	294,456	82,378	172,649	549,483
Acquisitions	<u>209,231</u>	<u>6,165</u>	<u>23,819</u>	<u>239,215</u>
Balance, June 30, 2016	<u>\$ 503,687</u>	<u>\$ 88,543</u>	<u>\$ 196,468</u>	<u>\$ 788,698</u>
Accumulated Depreciation:				
Balance, July 1, 2014	\$ 2,920	\$ 2,130	\$ -0-	\$ 5,050
Depreciation expense	<u>26,149</u>	<u>6,872</u>	<u>17,195</u>	<u>50,216</u>
Balance, June 30, 2015	29,069	9,002	17,195	55,266
Depreciation expense	<u>82,302</u>	<u>12,240</u>	<u>38,566</u>	<u>133,108</u>
Balance, June 30, 2016	<u>\$ 111,371</u>	<u>\$ 21,242</u>	<u>\$ 55,761</u>	<u>\$ 188,374</u>
Net Depreciable Capital Assets:				
Balance, June 30, 2015	<u>\$ 265,387</u>	<u>\$ 73,376</u>	<u>\$ 155,454</u>	<u>\$ 494,217</u>
Balance, June 30, 2016	<u>\$ 392,316</u>	<u>\$ 67,301</u>	<u>\$ 140,707</u>	<u>\$ 600,324</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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 \$8,600,792 and \$8,997,509 for the years ended June 30, 2016 and 2015, respectively.

Activity related to bonds payable for the years ended June 30, 2016 and 2015 is as follows:

	Bonds Payable		
	Gross	Bond Premium	Net
Balance, July 1, 2014	\$ 60,000,000	\$ -0-	\$ 60,000,000
Additions	184,960,000	11,233,750	196,193,750
Less:			
Repayments	(60,000,000)		(60,000,000)
Amortization		(374,458)	(374,458)
Balance, June 30, 2015	184,960,000	10,859,292	195,819,292
Less:			
Repayments	(6,000,000)		(6,000,000)
Amortization		(374,458)	(374,458)
Balance, June 30, 2016	\$ 178,960,000	\$ 10,484,834	\$ 189,444,834
Amounts Due Within One Year:			
June 30, 2015	\$ 2,970,000	\$ 374,458	\$ 3,344,458
June 30, 2016	\$ -0-	\$ 374,458	\$ 374,458

The PLA had an obligation to make a payment of principal and interest on July 1, 2016. This obligation was paid on June 30, 2016.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE D – BONDS PAYABLE (CONTINUED)

Maturities of the long-term bonds payable (excluding the bond premium) are as follows as of June 30, 2016:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending June 30:			
2017	\$ -0-	\$ 4,442,175	\$ 4,442,175
2018	3,120,000	8,821,950	11,941,950
2019	3,245,000	8,694,650	11,939,650
2020	3,375,000	8,545,375	11,920,375
2021	3,545,000	8,372,375	11,917,375
2022-2026	20,575,000	38,946,875	59,521,875
2027-2031	26,255,000	33,121,125	59,376,125
2032-2036	33,505,000	25,686,375	59,191,375
2037-2041	42,765,000	16,197,625	58,962,625
2042-2045	42,575,000	4,387,125	46,962,125
	<u>\$ 178,960,000</u>	<u>\$ 157,215,650</u>	<u>\$ 336,175,650</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, 2016 are as follows:

For the Years Ending June 30:	
2017	\$ 144,428
2018	144,428
2019	143,321
2020	58,333
	<u>\$ 490,510</u>

Rental expense under all leases was \$141,262 and \$93,709 for the years ended June 30, 2016 and 2015, respectively.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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.

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

September 19, 2016

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, 2016, and the related notes to the financial statements, which comprise the PLA's basic financial statements, and have issued our report thereon dated September 19, 2016.

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.

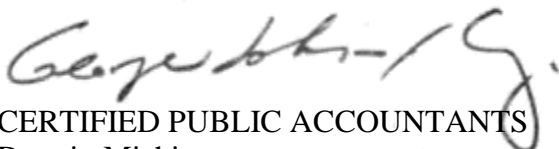
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
(CONTINUED)**

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