

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2015 and 2014



PUBLIC LIGHTING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

September 18, 2015

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, 2015 and 2014, 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, 2015 and 2014, 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 September 18, 2015, 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, 2015 and 2014

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, 2015 and 2014. 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 and a \$17.5 million allocation of utility user tax from the City to fund the street light construction for the fiscal years ended June 30, 2015 and 2014, respectively. The PLA incurred approximately \$3,276,000 and \$1,305,000 in administrative expenses, and approximately \$11,117,000 and \$1,502,000 in expenses that primarily went to cover debt service (i.e., interest expense and bond issuance costs), during the fiscal years ended June 30, 2015 and 2014, respectively. The PLA also incurred approximately \$2,314,000 in expenses to operate and maintain the street lighting system during the fiscal year ended June 30, 2015. 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 approximately \$185 million in bonds. The bonds are payable over 30 years, with the proceeds used to construct approximately 65,000 lights in the City of Detroit and to pay-off the \$60 million of short-term financing.

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

June 30, 2015 and 2014

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. 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, 2015:

- The assets of the PLA exceeded its liabilities at the end of the fiscal year (its net position) by approximately \$19.1 million.
- The PLA's net position increased by approximately \$2.6 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, 2015 and 2014

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1 reflects the condensed statements of net position as of June 30, 2015, 2014, and 2013:

Table 1
Statements of Net Position
June 30, 2015, 2014, and 2013
(in millions of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Cash	\$ 12.0	\$ 15.5	\$ 1.1
Investments	132.0	52.4	-0-
Capital assets	80.0	19.2	-0-
Other assets	1.3	0.8	-0-
Total Assets	<u>225.3</u>	<u>87.9</u>	<u>1.1</u>
Liabilities:			
Bonds payable	195.8	60.0	-0-
Other liabilities	10.4	11.4	0.1
Total Liabilities	<u>206.2</u>	<u>71.4</u>	<u>0.1</u>
Net Position:			
Net investment in capital assets	74.4	8.1	-0-
Unrestricted	(55.3)	8.4	1.0
Total Net Position	<u>\$ 19.1</u>	<u>\$ 16.5</u>	<u>\$ 1.0</u>

The statements of net position show a net position of approximately \$19.1 million and \$16.5 million as of June 30, 2015 and 2014, respectively. That reflects an increase of approximately \$2.6 million over the net position balance at the end of the previous fiscal year.

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

June 30, 2015 and 2014

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects the condensed statements of revenue, expenses, and changes in fund net position for the years ended June 30, 2015 and 2014, as well as for the period from April 5, 2013 through June 30, 2013:

Table 2
Statements of Revenue, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2015 and 2014 and the Period
from April 5, 2013 (Date of Inception) through June 30, 2013
(in millions of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenue	\$ 19.2	\$ 18.3	\$ 1.2
Operating Expenses	<u>5.6</u>	<u>1.3</u>	<u>0.2</u>
Net Operating Income	13.6	17.0	1.0
Nonoperating Revenue	0.1	-0-	-0-
Nonoperating Expenses	<u>11.1</u>	<u>1.5</u>	<u>-0-</u>
Net Increase in Net Position	2.6	15.5	1.0
Net Position, Beginning of Period	<u>16.5</u>	<u>1.0</u>	<u>-0-</u>
Net Position, End of Period	<u>\$ 19.1</u>	<u>\$ 16.5</u>	<u>\$ 1.0</u>

The PLA’s operating revenue totaled approximately \$19.2 million, an increase of approximately \$1 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 \$3.3 million and \$1.3 million for the fiscal years ended June 30, 2015 and 2014, respectively. The PLA also incurred nonoperating expenses in the amount of approximately \$11.1 million and \$1.5 million for debt service to cover the interest and issuance costs of the long-term financing for the fiscal years ended June 30, 2015 and 2014, respectively. The PLA also incurred operating and maintenance expenses for the street lights in the amount of \$2.3 million for the fiscal year ended June 30, 2015.

PUBLIC LIGHTING AUTHORITY

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

June 30, 2015 and 2014

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The PLA has constructed approximately 46,000 street lights as of June 30, 2015, 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 \$60 million and \$19 million for the fiscal years ended June 30, 2015 and 2014, 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 financial department at 65 Cadillac Square, Suite 3100, Detroit, Michigan 48226.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

	Enterprise Funds	
	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents (Note B)	\$ 12,002,453	\$ 15,531,767
Accounts receivable (no allowance considered necessary)	598,849	757,500
Prepaid expenses	713,208	-0-
Total Current Assets	13,314,510	16,289,267
Noncurrent assets:		
Investments (Note B)	132,041,868	52,349,183
Capital assets (Note C):		
Nondepreciable capital assets	79,459,024	19,190,049
Depreciable capital assets, net	494,217	37,031
Total Noncurrent Assets	211,995,109	71,576,263
Total Assets	\$ 225,309,619	\$ 87,865,530

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2015 and 2014

	Enterprise Funds	
	2015	2014
Liabilities:		
Current liabilities:		
Accounts payable on capital acquisitions	\$ 5,525,134	\$ 11,102,081
Other accounts payable and accrued expenses	324,594	221,952
Accrued interest payable	4,532,175	-0-
Bonds payable due or expected to be paid within one year (Note D)	3,344,458	60,000,000
Total Current Liabilities	13,726,361	71,324,033
Noncurrent liabilities:		
Bonds payable due or expected to be paid in more than one year (Note D)	192,474,834	-0-
Total Liabilities	206,201,195	71,324,033
Net Position:		
Net investment in capital assets	74,428,107	8,124,999
Unrestricted	(55,319,683)	8,416,498
Total Net Position	\$ 19,108,424	\$ 16,541,497

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

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

For the Years Ended June 30, 2015 and 2014

	Enterprise Funds	
	2015	2014
Operating Revenue:		
Utility user tax allocation from the City of Detroit (Note A)	\$ 12,500,000	\$ 17,549,994
Operation and management fees from the City of Detroit (Note A)	5,527,177	757,500
Other revenue	1,180,465	1,000
Total Operating Revenue	19,207,642	18,308,494
Operating Expenses:		
Operating and maintenance	2,313,564	-0-
Salaries and wages	1,577,550	382,818
Payroll taxes	138,613	32,227
Employee benefits	253,546	61,612
Professional fees	436,792	457,380
Occupancy	163,423	51,527
Office expenses	67,330	36,413
Insurance	234,282	36,433
Community and public relations	208,023	156,686
Depreciation (Note C)	50,216	5,050
Other expenses	146,482	84,837
Total Operating Expenses	5,589,821	1,304,983
Net Operating Income	\$ 13,617,821	\$ 17,003,511

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, 2015 and 2014

	<u>Enterprise Funds</u>	
	<u>2015</u>	<u>2014</u>
Nonoperating Revenue:		
Investment income	\$ 65,856	\$ 1,660
	<u>65,856</u>	<u>1,660</u>
Nonoperating Expenses:		
Interest expense (Note D)	8,997,509	585,489
Bond issuance costs	2,119,241	916,636
	<u>11,116,750</u>	<u>1,502,125</u>
Net Increase in Net Position	2,566,927	15,503,046
Net Position, Beginning of Year	<u>16,541,497</u>	<u>1,038,451</u>
Net Position, End of Year	<u>\$ 19,108,424</u>	<u>\$ 16,541,497</u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2015 and 2014

	Enterprise Funds	
	2015	2014
Cash Flows from Operating Activities:		
Cash received from City of Detroit	\$ 18,185,828	\$ 17,550,994
Cash received from other sources	1,180,465	-0-
Cash paid for employee compensation	(1,886,595)	(460,654)
Cash paid to suppliers and vendors	(4,263,576)	(679,683)
Net Cash Provided by Operating Activities	13,216,122	16,410,657
Cash Flows from Investing Activities:		
Cash paid for acquisition of investments	(79,692,685)	(52,349,183)
Cash received for investment income	65,856	1,660
Net Cash Used by Investing Activities	(79,626,829)	(52,347,523)
Cash Flows from Capital Financing Activities:		
Cash paid on acquisition of capital assets	(66,353,324)	(8,130,049)
Proceeds received from issuance of bonds payable	195,025,411	60,000,000
Payments on bonds payable	(60,000,000)	-0-
Cash paid for interest	(4,839,792)	(585,489)
Cash paid for bond issuance costs	(950,902)	(916,636)
Net Cash Provided by Capital Financing Activities	62,881,393	50,367,826
Net Increase (Decrease) in Cash and Cash Equivalents	(3,529,314)	14,430,960
Cash and Cash Equivalents Balance, Beginning of Year	15,531,767	1,100,807
Cash and Cash Equivalents Balance, End of Year	\$ 12,002,453	\$ 15,531,767

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2015 and 2014

	Enterprise Funds	
	2015	2014
Schedule of Noncash Transactions:		
Acquisition of capital assets under accounts payable	\$ 5,525,134	\$ 11,102,081
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:		
Net operating income	\$ 13,617,821	\$ 17,003,511
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	50,216	5,050
(Increase) decrease in:		
Accounts receivable	158,651	(757,500)
Prepaid expenses	(713,208)	600
Increase in accounts payable and accrued expenses	102,642	158,996
Net Cash Provided by Operating Activities	\$ 13,216,122	\$ 16,410,657

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

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, 2015 and 2014, the PLA had \$182,313 and \$757,500, 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, 2015 and 2014

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.

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

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, 2015 and 2014, 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, 2015 or 2014.

Reclassifications

Certain reclassifications have been made to the accompanying financial statements as of, and for the year ended, June 30, 2014 to conform to classifications used as of, and for the year ended, June 30, 2015.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 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, 2015 and 2014, 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>2015</u>	<u>2014</u>
Carrying amount of deposits	\$ 12,002,453	\$ 15,531,767
Total bank balances	<u>\$ 15,479,872</u>	<u>\$ 15,548,236</u>
Uninsured and uncollateralized bank balances	<u>\$ 14,729,872</u>	<u>\$ 15,297,308</u>

Investments

Investments are recorded at fair value, based on quoted market prices. As of June 30, 2015 and 2014, the PLA's investments are classified as follows:

	<u>2015</u>	<u>2014</u>
Investments held by the counterparty's trust department or agent in the PLA's name:		
Debt securities:		
AA+ rating from Standard & Poor's:		
Federal Home Loan Mortgage Corporation:		
Maturity date July 17, 2015	\$ 14,412,332	\$ -0-
Federal Home Loan Bank:		
Maturity date August 28, 2015	14,966,433	-0-
Maturity date November 20, 2015	19,914,266	-0-

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 2014

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

	<u>2015</u>	<u>2014</u>
Investments held by the counterparty's trust department or agent in the PLA's name (continued):		
Debt securities (continued):		
AA+ rating from Standard & Poor's (continued):		
Federal National Mortgage Association:		
Maturity date September 28, 2015	\$ 14,946,160	\$ -0-
Maturity date October 26, 2015	<u>14,855,938</u>	<u>-0-</u>
Total Debt Securities	<u>79,095,129</u>	<u>-0-</u>
Money market funds:		
AAAm rating from Standard & Poor's:		
BlackRock FedFund, Administrative Shares (weighted average maturity of 34 days)	28,882,373	-0-
PFM Money Market Funds, Government Shares (weighted average maturity of 35 days)	17,585,595	-0-
BlackRock New York Money Fund, Institutional Shares (weighted average maturity of 39 days)	6,478,741	-0-
Wilmington U.S. Government Money Market Fund, Institutional Class (weighted average maturity of 45 days)	<u>-0-</u>	<u>52,349,183</u>
Total Money Market Funds	<u>52,946,709</u>	<u>52,349,183</u>
Municipal bonds	<u>30</u>	<u>-0-</u>
Total Investments	<u><u>\$ 132,041,868</u></u>	<u><u>\$ 52,349,183</u></u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 2014

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

Credit risk is the risk that the PLA will not recover its investments due to the inability of the counterparty to fulfill its obligations. State 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.

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.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 2014

NOTE C - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2015 and 2014 is as follows:

	<u>Construction in Progress</u>
Balance, July 1, 2013	\$ -0-
Acquisitions	<u>19,190,049</u>
Balance, June 30, 2014	19,190,049
Acquisitions	<u>60,268,975</u>
Balance, June 30, 2015	<u><u>\$ 79,459,024</u></u>

Depreciable capital asset activity for the years ended June 30, 2015 and 2014 is as follows:

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Vehicles</u>	<u>Total</u>
Cost:				
Balance, July 1, 2013	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Acquisitions	<u>22,176</u>	<u>19,905</u>	<u>-</u>	<u>42,081</u>
Balance, June 30, 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	<u><u>\$ 294,456</u></u>	<u><u>\$ 82,378</u></u>	<u><u>\$ 172,649</u></u>	<u><u>\$ 549,483</u></u>
Accumulated Depreciation:				
Balance, July 1, 2013	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Depreciation expense	<u>2,920</u>	<u>2,130</u>	<u>-</u>	<u>5,050</u>
Balance, June 30, 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	<u><u>\$ 29,069</u></u>	<u><u>\$ 9,002</u></u>	<u><u>\$ 17,195</u></u>	<u><u>\$ 55,266</u></u>
Net Depreciable Capital Assets:				
Balance, June 30, 2014	<u>\$ 19,256</u>	<u>\$ 17,775</u>	<u>\$ -0-</u>	<u>\$ 37,031</u>
Balance, June 30, 2015	<u><u>\$ 265,387</u></u>	<u><u>\$ 73,376</u></u>	<u><u>\$ 155,454</u></u>	<u><u>\$ 494,217</u></u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 2014

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 \$8,997,509 and \$585,489 for the years ended June 30, 2015 and 2014, respectively.

Activity related to bonds payable for the years ended June 30, 2015 and 2014 is as follows:

	Bonds Payable		
	Gross	Bond Premium	Net
Balance, July 1, 2013	\$ -0-	\$ -0-	\$ -0-
Additions	60,000,000		60,000,000
Balance, June 30, 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
Amounts Due Within One Year:			
June 30, 2014	\$ 60,000,000	\$ -0-	\$ 60,000,000
June 30, 2015	\$ 2,970,000	\$ 374,458	\$ 3,344,458

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 2014

NOTE D – BONDS PAYABLE (CONTINUED)

Maturities of the long-term bonds payable (excluding the bond premium) are as follows as of June 30, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending June 30:			
2016	\$ 2,970,000	\$ 9,019,800	\$ 11,989,800
2017	3,030,000	8,929,800	11,959,800
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
2021-2025	19,595,000	39,951,125	59,546,125
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
	<u>\$ 184,960,000</u>	<u>\$ 170,723,075</u>	<u>\$ 355,683,075</u>

NOTE E - LEASES

Effective December 1, 2014, the PLA entered into an agreement to lease office space. The lease expires on November 30, 2019. Future minimum payments due under this lease are as follows as of June 30, 2015:

For the Years Ending June 30:	
2016	\$ 140,000
2017	140,000
2018	140,000
2019	140,000
2020	<u>58,333</u>
	<u>\$ 618,333</u>

Rental expense under this lease and a previous lease was \$93,709 and \$31,439 for the years ended June 30, 2015 and 2014, respectively.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 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, 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 – 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. SGAS No. 72 applies to the PLA's financial statements for the year ending June 30, 2016. The PLA has not determined the impact, if any, on its financial statements of implementing SGAS No. 72.

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

September 18, 2015

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, 2015, and the related notes to the financial statements, which comprise the PLA’s basic financial statements, and have issued our report thereon dated September 18, 2015.

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.

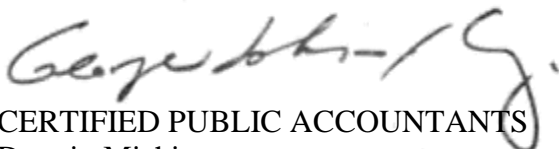
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
(CONTINUED)**

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