

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2017 and 2016

PUBLIC LIGHTING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

November 7, 2017

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, 2017 and 2016, 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, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 7, 2017, 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, 2017 and 2016

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, 2017 and 2016. 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, 2017 and 2016. The PLA incurred approximately \$3,807,000 and \$4,726,000 in administrative expenses, and approximately \$8,500,000 and \$8,600,000 in expenses that primarily went to cover debt service (i.e., interest expense and bond costs), during the fiscal years ended June 30, 2017 and 2016, respectively. The PLA also incurred approximately \$4,006,000 and \$3,432,000 in expenses to operate and maintain the street lighting system during the fiscal years ended June 30, 2017 and 2016, 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, 2017 and 2016

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, 2017:

- The assets of the PLA exceeded its liabilities at the end of the fiscal year (its net position) by approximately \$32.2 million.
- The PLA's net position increased by approximately \$7.3 million as the result of current-year operations.
- The PLA increased its capital assets by approximately \$41.3 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, 2017 and 2016

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, 2017, 2016, and 2015:

Table 1
Statements of Net Position
June 30, 2017, 2016, and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Cash and cash equivalents:			
Unrestricted	\$ 10.5	\$ 11.4	\$ 8.8
Reserved for operation and maintenance	12.5	7.8	3.2
Investments	23.6	64.4	132.0
Capital assets	182.1	140.8	80.0
Other assets	0.8	0.4	1.3
	<u>229.5</u>	<u>224.8</u>	<u>225.3</u>
Liabilities:			
Bonds payable	189.1	189.4	195.8
Other liabilities	8.2	10.5	10.4
	<u>197.3</u>	<u>199.9</u>	<u>206.2</u>
Net Position:			
Net investment in capital assets	18.5	10.2	14.2
Unrestricted	13.7	14.7	4.9
	<u>\$ 32.2</u>	<u>\$ 24.9</u>	<u>\$ 19.1</u>

The statements of net position show a net position of approximately \$32.2 million and \$24.9 million as of June 30, 2017 and 2016, respectively. That reflects an increase of approximately \$7.3 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, 2017 and 2016

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, 2017, 2016, and 2015:

Table 2
Statements of Revenue, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2017, 2016, and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenue	\$ 23.4	\$ 22.1	\$ 19.2
Operating Expenses	<u>7.8</u>	<u>8.2</u>	<u>5.6</u>
Net Operating Income	15.6	13.9	13.6
Nonoperating Revenue	0.2	0.5	0.1
Nonoperating Expenses	<u>8.5</u>	<u>8.6</u>	<u>11.1</u>
Net Increase in Net Position	7.3	5.8	2.6
Net Position, Beginning of Year	<u>24.9</u>	<u>19.1</u>	<u>16.5</u>
Net Position, End of Year	<u>\$ 32.2</u>	<u>\$ 24.9</u>	<u>\$ 19.1</u>

The PLA’s operating revenue totaled approximately \$23.4 million, an increase of approximately \$1.3 million over the prior fiscal year. This increase is primarily the result of a collection of operation and maintenance reimbursements from the City compared to the previous year. The PLA incurred administrative expenses of approximately \$3.8 million and \$4.7 million for the fiscal years ended June 30, 2017 and 2016, respectively. The PLA also incurred nonoperating expenses in the amount of approximately \$8.5 million and \$8.6 million for debt service to cover the interest and issuance costs of the long-term financing for the fiscal years ended June 30, 2017 and 2016, respectively. The PLA also incurred operating and maintenance expenses for the street lights in the amount of approximately \$4.0 million and \$3.4 million for the fiscal years ended June 30, 2017 and 2016, respectively.

PUBLIC LIGHTING AUTHORITY

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

June 30, 2017 and 2016

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The PLA has constructed 65,462 street lights as of June 30, 2017, 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 \$41 million and \$61 million for the fiscal years ended June 30, 2017 and 2016, 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, 2017 and 2016

	Enterprise Funds	
	2017	2016
Assets:		
Current assets:		
Cash and cash equivalents (Note B):		
Unrestricted	\$ 10,537,389	\$ 11,414,142
Reserved for operation and maintenance	12,486,381	7,830,766
Total Cash and Cash Equivalents	23,023,770	19,244,908
Inventory (Note A)	619,675	199,878
Prepaid expenses	206,108	196,953
Total Current Assets	23,849,553	19,641,739
Noncurrent assets:		
Investments (Note B)	23,645,375	64,449,711
Capital assets (Note C):		
Nondepreciable capital assets	181,514,137	140,147,579
Depreciable capital assets, net	484,712	600,324
Total Noncurrent Assets	205,644,224	205,197,614
Total Assets	\$ 229,493,777	\$ 224,839,353

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2017 and 2016

	Enterprise Funds	
	2017	2016
Liabilities:		
Current liabilities:		
Accounts payable on capital acquisitions	\$ 1,154,266	\$ 9,627,941
Other accounts payable and accrued expenses	159,590	886,990
Accrued interest payable	4,442,175	-0-
Advance from City of Detroit	2,514,939	-0-
Bonds payable due or expected to be paid within one year (Note D)	3,494,458	374,458
Total Current Liabilities	11,765,428	10,889,389
Noncurrent liabilities:		
Bonds payable due or expected to be paid in more than one year (Note D)	185,575,918	189,070,376
Total Liabilities	197,341,346	199,959,765
Net Position:		
Net investment in capital assets	18,520,495	10,162,432
Unrestricted	13,631,936	14,717,156
Total Net Position	\$ 32,152,431	\$ 24,879,588

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

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

For the Years Ended June 30, 2017 and 2016

	Enterprise Funds	
	2017	2016
Operating Revenue:		
Utility user tax allocation from City of Detroit (Note A)	\$ 12,500,000	\$ 12,500,000
Operation and management fees from City of Detroit (Note A)	10,039,058	8,886,743
Other revenue	881,653	684,637
Total Operating Revenue	23,420,711	22,071,380
Operating Expenses:		
Operating and maintenance	4,006,367	3,431,910
Salaries and wages	1,486,828	2,672,051
Payroll taxes	121,716	195,147
Employee benefits	337,787	435,074
Professional fees	566,232	589,508
Occupancy	220,214	237,909
Office expenses	60,587	77,504
Insurance	321,163	142,282
Community and public relations	259,641	151,517
Depreciation (Note C)	150,025	133,108
Other expenses	282,930	91,568
Total Operating Expenses	7,813,490	8,157,578
Net Operating Income	\$ 15,607,221	\$ 13,913,802

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, 2017 and 2016

	<u>Enterprise Funds</u>	
	<u>2017</u>	<u>2016</u>
Nonoperating Revenue:		
Investment income	\$ 191,007	\$ 458,154
Total Nonoperating Revenue	<u>191,007</u>	<u>458,154</u>
Nonoperating Expenses:		
Interest expense (Note D)	8,509,892	8,600,792
Loss on disposition of capital assets	10,493	-0-
Bond costs	5,000	-0-
Total Nonoperating Expenses	<u>8,525,385</u>	<u>8,600,792</u>
Net Increase in Net Position	<u>7,272,843</u>	<u>5,771,164</u>
Net Position, Beginning of Year	<u>24,879,588</u>	<u>19,108,424</u>
Net Position, End of Year	<u><u>\$ 32,152,431</u></u>	<u><u>\$ 24,879,588</u></u>

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	Enterprise Funds	
	2017	2016
Cash Flows from Operating Activities:		
Cash received from City of Detroit	\$ 25,053,997	\$ 21,569,056
Cash received from other sources	881,653	1,101,173
Cash paid for employee compensation	(1,989,161)	(3,324,144)
Cash paid to suppliers and vendors	(6,830,656)	(3,821,553)
	17,115,833	15,524,532
Cash Flows from Investing Activities:		
Cash paid for acquisition of investments	(12,191,857)	(214,429,644)
Proceeds received from disposition of investments	52,996,193	282,021,801
Cash received for investment income	191,007	458,154
	40,995,343	68,050,311
Cash Flows from Capital Financing Activities:		
Cash paid on acquisition of capital assets	(49,906,939)	(56,824,963)
Proceeds received from sale of capital assets	21,800	-0-
Payments on bonds payable	-0-	(6,000,000)
Cash paid for interest	(4,442,175)	(13,507,425)
Cash paid for bond costs	(5,000)	-0-
	\$ (54,332,314)	\$ (76,332,388)

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2017 and 2016

	Enterprise Funds	
	2017	2016
Net Increase in Cash and Cash Equivalents	\$ 3,778,862	\$ 7,242,455
Cash and Cash Equivalents Balance, Beginning of Year	19,244,908	12,002,453
Cash and Cash Equivalents Balance, End of Year	\$ 23,023,770	\$ 19,244,908
Schedule of Noncash Transactions:		
Acquisition of capital assets under accounts payable	\$ 1,154,266	\$ 9,627,941
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:		
Net operating income	\$ 15,607,221	\$ 13,913,802
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	150,025	133,108
(Increase) decrease in:		
Accounts receivable	-0-	598,849
Inventory	(419,797)	(199,878)
Prepaid expenses	(9,155)	516,255
Increase (decrease) in:		
Other accounts payable and accrued expenses	(727,400)	562,396
Advance from City of Detroit	2,514,939	-0-
Net Cash Provided by Operating Activities	\$ 17,115,833	\$ 15,524,532

See notes to financial statements.

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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. There were no amounts due from the City as of June 30, 2017 or 2016.

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, 2017 and 2016

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

Operating Revenue and Expenses

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

Cash Equivalents

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

Inventory

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

Capital Assets

Capital assets are recorded at historical cost. The PLA capitalizes all expenditures for 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.

The PLA has incurred costs for lighting systems that were fully completed as of June 30, 2017. Such costs have been reflected in the accompanying financial statements as construction in progress as of June 30, 2017 and 2016; the lighting systems will be depreciated, effective July 1, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

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

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.

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

Fair Value Measurements

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

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

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

- Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the PLA has the ability to access
- Level 2 - Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

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

Fair Value Measurements (continued)

- 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, 2016 to conform to classifications used as of, and for the year ended, June 30, 2017.

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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Carrying amount of deposits	\$ 23,023,770	\$ 19,244,908
Total bank balances	<u>\$ 24,313,517</u>	<u>\$ 15,038,795</u>
Uninsured and uncollateralized bank balances	<u>\$ 23,565,692</u>	<u>\$ 14,336,888</u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The PLA's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2017 and 2016 is summarized as follows:

	<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>	
2017				
Assets:				
Investments at fair value:				
Money market funds	\$ 23,645,375	\$ -0-	\$ -0-	\$ 23,645,375
	<u>\$ 23,645,375</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 23,645,375</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>

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

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

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

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

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

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

Individual investments that represent five percent or more of the PLA's total investments either as of June 30, 2017 or as of June 30, 2016, or for which credit risk or interest rate risk disclosures are required, are as follows:

	<u>2017</u>	<u>2016</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 37 days and 40 days for 2017 and 2016, respectively)	\$ 23,645,375	\$ 29,750,734
PFM Money Market Funds, Government Shares (weighted average maturity of 49 days for 2016)	-0-	34,698,948

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2017 and 2016 is as follows:

	<u>Construction in Progress</u>
Balance, July 1, 2015	\$ 79,459,024
Acquisitions	<u>60,688,555</u>
Balance, June 30, 2016	140,147,579
Acquisitions	<u>41,366,558</u>
Balance, June 30, 2017	<u>\$ 181,514,137</u>

Depreciable capital asset activity for the years ended June 30, 2017 and 2016 is as follows:

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Vehicles</u>	<u>Total</u>
Cost:				
Balance, July 1, 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	503,687	88,543	196,468	788,698
Acquisitions	50,000		42,206	92,206
Less: Dispositions			<u>(87,734)</u>	<u>(87,734)</u>
Balance, June 30, 2017	<u>\$ 553,687</u>	<u>\$ 88,543</u>	<u>\$ 150,940</u>	<u>\$ 793,170</u>
Accumulated Depreciation:				
Balance, July 1, 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	111,371	21,242	55,761	188,374
Depreciation expense	101,571	12,700	35,754	150,025
Less: Dispositions			<u>(29,941)</u>	<u>(29,941)</u>
Balance, June 30, 2017	<u>\$ 212,942</u>	<u>\$ 33,942</u>	<u>\$ 61,574</u>	<u>\$ 308,458</u>
Net Depreciable Capital Assets:				
Balance, June 30, 2016	<u>\$ 392,316</u>	<u>\$ 67,301</u>	<u>\$ 140,707</u>	<u>\$ 600,324</u>
Balance, June 30, 2017	<u>\$ 340,745</u>	<u>\$ 54,601</u>	<u>\$ 89,366</u>	<u>\$ 484,712</u>

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

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 \$8,509,892 and \$8,600,792 for the years ended June 30, 2017 and 2016, respectively.

Activity related to bonds payable for the years ended June 30, 2017 and 2016 is as follows:

	Bonds Payable		
	Gross	Bond Premium	Net
Balance, July 1, 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
Less: Amortization		(374,458)	(374,458)
Balance, June 30, 2017	\$ 178,960,000	\$ 10,110,376	\$ 189,070,376
Amounts Due Within One Year:			
June 30, 2016	\$ -0-	\$ 374,458	\$ 374,458
June 30, 2017	\$ 3,120,000	\$ 374,458	\$ 3,494,458

PUBLIC LIGHTING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE D – BONDS PAYABLE (CONTINUED)

Maturities of the long-term bonds payable (excluding the bond premium) are as follows as of June 30, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending June 30:			
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	3,725,000	8,190,625	11,915,625
2023-2027	21,600,000	37,892,500	59,492,500
2028-2032	27,570,000	31,775,500	59,345,500
2033-2037	35,180,000	23,969,250	59,149,250
2038-2042	44,905,000	14,005,875	58,910,875
2043-2045	32,695,000	2,505,375	35,200,375
	<u><u>\$ 178,960,000</u></u>	<u><u>\$ 152,773,475</u></u>	<u><u>\$ 331,733,475</u></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, 2017 are as follows:

For the Years Ending June 30:	
2018	\$ 162,928
2019	161,821
2020	<u>66,042</u>
	<u><u>\$ 390,791</u></u>

Rental expense under all leases was \$159,762 and \$141,262 for the years ended June 30, 2017 and 2016, respectively.

NOTE F - RISK MANAGEMENT

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

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

November 7, 2017

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, 2017, and the related notes to the financial statements, which comprise the PLA's basic financial statements, and have issued our report thereon dated November 7, 2017.

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