

**AGENDA**

**FINANCE COMMITTEE MEETING**

**July 14, 2015**

**6:00 P.M. – 1201 S. Washington Ave.  
REO Town Depot**

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of 5/12/15.....**TAB 1**
- 2. External Audit Communication Presented by Plante & Moran.....**TAB 2**
- 3. Internal Audit Status Update ..... **TAB 3**
- 4. April and May Financial Highlights ..... **TAB 4**
- 5. Six Year Forecast Overview/Resolution ..... **TAB 5**
- 6. Credit Card Policy Resolution.....**TAB 6**
- 7. Capital Project Exceedance Resolution ..... **TAB 7**

Other

Adjourn

## **FINANCE COMMITTEE**

**May 12, 2015**

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 7:08 p.m. on Tuesday, May 12, 2015.

Finance Committee Chairperson Dennis M. Louney called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Dennis M. Louney, Margaret Bossenbery, Tony Mullen and Sandra Zerkle. Also, present Commissioners Price and Ward.

Absent: None.

The Corporate Secretary declared a quorum.

### **Public Comments**

None.

### **Approval of Minutes**

**Motion** by Commissioner Bossenbery, Seconded by Commissioner Mullen to approve the Finance Committee meeting minutes of April 4, 2015.

**Action:** Motion Carried.

### **March 2015 Financial Highlights**

Chief Financial Officer (CFO) Heather Shawa-DeCook provided the Committee with a brief overview of the BWL's March financials month end. CFO Heather Shawa-DeCook reported the following information:

- Operating and Maintenance Cash Fund on hand, is above our target goal and as of May 8<sup>th</sup> we are well above our goal at Just under \$90 million, our target goal is \$80 million for our operating fund.
- Hit revenue budget for March (first time this fiscal year).
- Year to date variance to budget is -5% (gaining another percent this past month).
- As reported last month from a net income stance, we are projecting well above budget as of March month-end. However, by the end of the fiscal year for 4<sup>th</sup> quarter, we will beat our budget, which is still projecting about \$4.5M for net income.

### **FY16 O&M and Capital Budget Resolution**

CFO Heather Shawa-DeCook presented a PowerPoint presentation and reviewed the FY 16 O&M Capital Budget that included:

- FY 2016 Financial Plan
- Sales forecast —Operating expense assumptions —FY 2016 O&M Budget by Category
- FY 2016 Budgeted Net Income & Cash Flow —Comparative Financials (FY 2016 vs. FY 2015)

Sales Volume Forecast

Utility	FY16 Budget	FY15 Budget	'16 Budget to '15 Budget
Electric-Retail (mmh)	2,141,490	2,189,661	-2.2%
Electric-Wholesale (mmh)	1,024,306	871,399	17.5%
Electric - Total (mmh)	3,165,796	3,061,060	3.4%
Water (cfd)	9,098,538	9,460,006	-3.8%
Steam (mlb)	764,969	730,936	4.7%
Chilled Water (tnhrs)	10,098,000	10,307,100	-2.0%

**Electric:**  
 • Retail sales volumes by customer class are expected to decrease slightly compared to FY 2015 Budget but increase slightly above actuals for FY 2015.  
 • Wholesale sales volumes are expected to increase as a result of fewer generation outages planned in FY 2016.

**Water:**  
 • Retail sales volumes are expected to decrease slightly in FY 2016 as a result of increased conservation and efficiency. Wholesale sales to East Lansing/Midland are expected to decline due to loss of sales to State Road Interconnect.

**Steam:**  
 • Steam sales volumes have been increased slightly to better reflect actual experience over the last five years.

**Chilled Water:**  
 • Chilled water sales volumes have been decreased slightly to better reflect recent actual experience.



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Operating Expense Assumptions

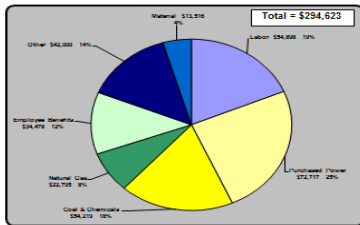
- Overall FY 2016 O&M increase of 2.2% compared to FY 2015 Budget. This increase is primarily attributable to inflationary pressure.
- Forecasted CPI Index 2.3% inflation\*
- Budget assumes 754 FTEs – an increase of 1.1% over the FY 2015 budget

\*The Budget and Economic Outlook 2015 is based on the Consumer Price Index (CPI) as reported by the Bureau of Economic Analysis.



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FY 2016 O&M Budget by Category  
-in \$000's, excludes depreciation



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FY 2016  
Income Statement by Utility

\$000	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
SALES \$ (mwh, cfd, mlb, ton-hrs)	3,127,275	9,098,538	764,969	10,098,000	
Retail	\$ 277,182	\$ 36,516	\$ 13,187	\$ 5,782	\$ 332,667
Wholesale	\$ 40,471	\$ 3,537	\$ -	\$ -	\$ 44,008
<b>OPERATING REVENUE</b>	<b>\$ 317,653</b>	<b>\$ 40,053</b>	<b>\$ 13,187</b>	<b>\$ 5,782</b>	<b>\$ 376,675</b>
Operation & Maintenance Expense	\$(26,399)	\$(6,760)	\$(133)	\$(2,331)	\$(34,623)
Depreciation Expense	\$(2,000)	\$(7,042)	\$(2,669)	\$(1,514)	\$(43,225)
<b>TOTAL OPERATING EXPENSE</b>	<b>\$(28,399)</b>	<b>\$(5,802)</b>	<b>\$(1,802)</b>	<b>\$(3,845)</b>	<b>\$(37,848)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 28,255</b>	<b>\$ 6,250</b>	<b>\$ 1,355</b>	<b>\$ 1,937</b>	<b>\$ 38,827</b>
Return on Equity	\$ (19,144)	\$ (2,408)	\$ (794)	\$ (353)	\$ (22,699)
Other/Non-Operating Income	\$ 262	\$ 779	\$ (173)	\$ (45)	\$ 913
Other/Non-Operating Expense	\$ (10,318)	\$ (1,928)	\$ (1,920)	\$ (514)	\$ (14,781)
<b>NET INCOME/(LOSS)</b>	<b>\$ 55</b>	<b>\$ 2,693</b>	<b>\$ (1,502)</b>	<b>\$ 1,015</b>	<b>\$ 2,261</b>
<b>RATE OF RETURN</b>	<b>2.3%</b>	<b>2.0%</b>	<b>0.6%</b>	<b>5.9%</b>	<b>2.2%</b>



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FY 2016 Cash Flow by Utility

\$000	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
<b>BEGINNING OPERATING CASH</b>	<b>\$ 58,092</b>	<b>\$ 12,332</b>	<b>\$ 5,394</b>	<b>\$ 3,719</b>	<b>\$ 80,126</b>
Sources of Cash					
Net Income	\$ 55	\$ 2,693	\$(1,502)	\$ 1,015	\$ 2,261
Depreciation	\$ 2,000	\$ 7,042	\$ 2,669	\$ 1,514	\$ 43,225
Loss on Sale of Assets	\$ 711	\$ 371	\$ 250	\$ -	\$ 1,342
Reserve for Future Construction	\$ 18,573	\$ 4,135	\$ 1,721	\$ 1,189	\$ 25,617
Net Environmental	\$ 3,513	\$ -	\$ 114	\$ -	\$ 3,627
Pipeline Refund	\$ -2,350	\$ -	\$ -	\$ -	\$ -2,350
<b>SOURCE \$ OF CASH</b>	<b>\$ 57,241</b>	<b>\$ 14,241</b>	<b>\$ 3,717</b>	<b>\$ 3,719</b>	<b>\$ 78,917</b>
Uses of Cash					
Debt Principal	\$(3,364)	\$(1,694)	\$(1)	\$(1,425)	\$(6,484)
Net Capital Expenditures	\$(47,341)	\$(11,304)	\$(5,249)	\$(677)	\$(65,072)
Reserve & Energy Plan	\$(1,000)	\$ -	\$ -	\$ -	\$(1,000)
Other Uses of Cash	\$(3,431)	\$(40)	\$(17)	\$(12)	\$(3,500)
<b>USES OF CASH</b>	<b>\$(51,437)</b>	<b>\$(13,038)</b>	<b>\$(5,267)</b>	<b>\$(1,114)</b>	<b>\$(69,856)</b>
<b>Net Cash Increase/(Decrease)</b>	<b>\$ (516)</b>	<b>\$ 1,204</b>	<b>\$(1,549)</b>	<b>\$ 1,604</b>	<b>\$ 662</b>
<b>ENDING OPERATING CASH</b>	<b>\$ 57,626</b>	<b>\$ 14,136</b>	<b>\$ 3,835</b>	<b>\$ 5,322</b>	<b>\$ 80,938</b>



Beginning Operating Cash Includes O & M Fund and Receiving Fund only. Designated funds and Restricted Bond Funds not included. (\$91.2 and \$10.2 million respectively as of March 31, 2015)

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Comparative Income Statement

Based on Initial Requests Prior to Strategic Alignment and Review

Account	FY2016 Budget	FY2015 Budget	Increase (Decrease)
<b>OPERATING REVENUE</b>	<b>\$376,675</b>	<b>\$366,652</b>	<b>2.9%</b>
<b>OPERATION AND MAINTENANCE EXPENSE</b>			
GROSS LABOR			
TOTAL GROSS LABOR	65,308	63,308	3.1%
MATERIAL	34,719	12,047	187.1%
OTHER - Utilities Benefits	36,509	23,075	57.8%
OUTSIDE SERVICES	44,309	24,021	84.2%
FUELS, WATER, CHEMICALS & AMT	148,739	149,000	-0.2%
Cash Investment in Capital Budget	(13,077)	(12,680)	3.1%
<b>OPERATION AND MAINTENANCE EXPENSE</b>	<b>\$ 328,139</b>	<b>\$ 281,996</b>	<b>16.4%</b>
Depreciation Expense	43,225	41,818	3.4%
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 371,279</b>	<b>\$ 323,813</b>	<b>14.6%</b>
<b>OPERATING INCOME</b>	<b>\$ 55,396</b>	<b>\$ 38,417</b>	<b>44.2%</b>
Return on Equity	(22,600)	(22,275)	1.4%
Other/Non-Operating Income/Expense	(13,647)	(14,613)	6.0%
<b>NET INCOME</b>	<b>\$ 19,149</b>	<b>\$ 11,529</b>	<b>65.2%</b>



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## Comparative Income Statement

After Strategic Alignment and Review

In \$000's	FY2016	FY2015	Increase
	Budget	Budget	(Decrease)
<b>OPERATING REVENUE</b>	<b>\$ 376,875</b>	<b>\$ 369,252</b>	<b>7,623</b>
<b>OPERATION AND MAINTENANCE EXPENSE</b>			
<b>GROSS LABOR</b>			
TOTAL GROSS LABOR	61,201	60,308	893
<b>MATERIAL</b>	13,516	12,047	1,469
<b>OTHER - Including Benefits</b>	24,101	23,070	1,031
<b>OUTSIDE SERVICES</b>	30,037	26,021	4,016
<b>FUELS, WATER CHEMICALS &amp; AMINE</b>	146,750	149,950	-3,200
<b>Costs transferred to Capital Budget</b>	(13,963)	(13,980)	17
<b>OPERATION AND MAINTENANCE EXPENSE</b>	<b>\$ 294,622</b>	<b>\$ 288,396</b>	<b>6,226</b>
<b>Depreciation Expense</b>	43,222	41,818	1,404
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 337,844</b>	<b>\$ 336,214</b>	<b>1,630</b>
<b>OPERATING INCOME</b>	<b>\$ 39,031</b>	<b>\$ 33,038</b>	<b>5,993</b>
<b>Return on Equity</b>	(2,050)	(2,271)	221
<b>Other Non-Operating Income/Expense</b>	(1,367)	(4,613)	3,246
<b>NET INCOME</b>	<b>\$ 35,614</b>	<b>\$ 26,154</b>	<b>9,460</b>



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- FY 2016 Capital Budget

### FY 2016 Capital Budget Summary

Dollars in (000's)

UTILITY		LOCATION	
ELECTRIC	\$ 38,962	ECKERT	\$ 8,026
WATER	\$ 8,106	ERICKSON	\$ 1,600
STEAM	\$ 4,506	T&D	\$ 40,009
CHILLED WATER	\$ 300	DYE/CEDAR	\$ 1,355
COMMON	<u>\$ 13,197</u>	OTHER	<u>\$ 14,081</u>
<b>TOTAL BUDGET</b>	<b>\$ 65,072</b>		<b>\$ 65,072</b>



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### FY 2016 Capital Budget – Major Projects/Programs

Project Title	Project Total	FY 2016
SA P CRB (CARE)	14,828,000	6,907,000
• Erickson to Willow 138KV Line Extension	20,100,000	3,500,000
Moore's Park Dam Gate Hoist and Phase 2 Dam Repairs	4,160,000	3,010,000
ESI Annual Rebuild T&D Systems	19,175,984	3,002,000
FY 2016 Lead Service Replacement	42,812,000	2,700,000
Smart Grid Implementation	30,950,000	2,500,000
Street, Building and Outdoor Protective Lighting	16,259,250	2,260,000
Services and Line Extensions	15,927,844	2,200,000
• Wise Substation double Ending	7,160,000	2,050,000
• North East Static VAR compensator	10,000,000	2,000,000
Eckert Unit 4, 5, and 6 Mercury Capture ACI System	2,249,441	1,967,441
Annual Purchase/Scrap Transformers/Regulators	8,847,013	1,385,000
Frondor Overhead 4150V Sub Cutover and Retirement	1,375,000	1,350,000
Michigan Ave Stm from Washtn to Alley 6	1,326,500	1,326,500
Substation Modernization - EOP 8	1,894,500	1,294,500
Forbes 4160V Substation Retirement	2,823,900	1,230,000
FY 2016, Budget Line 31: Annual Manhole Rplmt	7,574,223	1,186,416
Eckert Steam Send-Out	1,090,000	1,030,000
• Wise Bus 2 Distribution	3,000,000	1,000,000
• Miller 8320 Cutover	1,500,000	1,000,000
ADMS	2,000,000	1,000,000



\* These projects are part of the Electric Transmission & Distribution Plan

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Interim General Manager Peffley presented and reviewed a list of requested Capital Projects that would not be funded, as well as a list of Capital Projects planned for FY16. Interim General Manager Peffley stated that these two lists were well thought out and prioritized and it was a struggle to get this point. However, it is important to him that the BWL revenue is built on bringing businesses and residents to this region, not on the backs of the people.

Finance Chair Louney said this current budget would not be based on any rate increases.

**Motion** by Commissioner Bossenbery, Seconded by Commissioner Mullen to forward a Resolution for the approval of the FY 2016 Operating and Capital Budget.

**Action:** Motion Carried.

**Other**

None.

**Adjourn**

On **Motion** by Commissioner Bossenbery, seconded by Commissioner Mullen, the meeting adjourned at 7:53 p.m.

Respectfully submitted  
Dennis M. Louney, Chair  
Finance Committee

July 14, 2015

To the Board of Commissioners  
Lansing Board of Water and Light  
1201 South Washington  
Lansing MI, 48910

Dear Board of Commissioners:

We are in the process of planning for the audit of the financial statements of Lansing Board of Water and Light's Enterprise Fund and the related retirement plans – the Defined Benefit Plan for Employees' Pension, the Employees' Defined Contribution Pension Plan, and the Retiree Benefit Plan and Trust (collectively referred to as the "Lansing Board of Water and Light" or the "Organization") for the year ended June 30, 2015. An important aspect of planning for the audit is communication with those who have responsibility for overseeing the strategic direction of the Organization and obligations related to the accountability of the Organization. At Lansing Board of Water and Light these responsibilities and obligations are held by the Board of Commissioners, collectively and individually; therefore, it is important for us to communicate with each of you in your role as a member of the Board of Commissioners.

As part of this communication process, we have spoken at length with the Finance Committee regarding our responsibilities under generally accepted auditing standards and the planned scope and timing of our audit. The purpose of this letter is to provide each of you with a summary of those discussions and to provide you with the opportunity to communicate with us on matters that may impact our audit.

### **Our Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter addressed to Heather Shawa-DeCook, Chief Financial Officer and dated July 6, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

We expect to include an emphasis-of-matter paragraph in the auditor's report informing the users of the financial statements about the significance of changes to the financial statements as a result of adopting the provisions of GASB Statement No. 68. The Organization was required by the GASB to adopt this new standard for the 2015 fiscal year. The proposed wording of the emphasis-of-matter paragraph follows:

As discussed in the notes to the financial statements, the Lansing Board of Water and Light adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as of July 1, 2014. Our opinion is not modified with respect to this matter.

### **Overview of the Planned Scope and Timing of the Audit**

Our audit fieldwork will include three phases. The planning and preliminary information-gathering phase will occur during May and June 2015; the risk assessment phase in June and July 2015; and the rest of our audit procedures will be performed during July and August 2015.

To plan an effective audit, we must identify significant risks of misstatement in the financial statements and design procedures to address those risks.

We identified the following significant risks of misstatement:

- Financial statements and related footnotes, including the implementation of GASB Statement No. 68
- Utilization of GASB 62 for rate regulated items and amortization of related balance sheet accounts
- Capitalization and disposal of fixed assets
- Recognition of asset retirement obligations and impairments
- Purchase of and accounting for inventory
- Recognition of utilities revenue, including unbilled amounts as of year-end
- Understatement of accounts payable and related expenses
- Significant transactions during the year
- Environmental remediation
- Indirect cost capitalization rate
- Investment activity, contributions to and the disbursements from the retirement plans

In response to these identified significant risks, we will perform the following:

- Targeted testing of certain transactions to verify that transactions are supported by appropriate documentation and accounted for properly. This testing will include certain unpredictable procedures for which we will provide no advance notice.

- Confirmation of inputs to inventory valuation calculations with third-party specialists (i.e., coal density testing and aerial surveyors), and physical observation of sample of “stores” inventory quantities
- Analytical procedures
- Obtain attorney confirmations and meet independently with members of management outside of accounting to ascertain the reasonableness of accounting estimates (i.e., environmental engineers, etc.)
- Other tests we consider necessary to verify recorded balances and disclosure amounts

We will gain an understanding of accounting processes and key internal controls through a review of the accounting procedures questionnaires and control procedures questionnaires prepared by management. We will confirm through observation and inspection procedures that accounting procedures and controls included in the questionnaires have been implemented. We will not express an opinion on the effectiveness of internal control over financial reporting; however we will communicate to you significant deficiencies and material weaknesses identified in connection with our audit.

The concept of materiality is inherent in our work. We place greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

### **Information from You Relevant to Our Audit**

An important aspect of this communication process is the opportunity for us to obtain from you information that is relevant to our audit. Your views about any of the following are relevant to our audit:

- The Lansing Board of Water and Light’s objectives and strategies, and the related business risks that may result in material misstatements
- Matters you consider warrant particular attention during the audit, and any areas where you want to request additional procedures be undertaken
- Concerns about Lansing Board of Water and Light’s internal control and its importance to the Organization, including how the Board of Commissioners oversees the effectiveness of internal control and the detection or possibility of fraud
- Significant communications with regulators



July 14, 2015

- The actions of the Board of Commissioners in response to developments in accounting standards, regulations, laws, previous communications from us, and other related matters

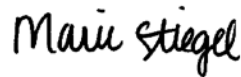
If you have any information to communicate to us regarding the above or any other matters you believe are relevant to the audit, or if you would like to discuss the audit in more detail, please call me at 517.336.7545 as soon as possible.

Thank you for your time and consideration in this important aspect of the audit process. You can expect to hear from us again after the completion of our audit when we will report to you the significant findings from the audit.

Yours truly,  
**Plante & Moran, PLLC**



Doug D. Rober, CPA  
Partner



Marie L. Stiegel, CPA  
Associate

# **Lansing Board of Water & Light**

## **Presentation to the Finance Committee**

### **Audit of June 30, 2015 Financial Statements & Related Pension Plans**



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# **June 30, 2015 Audit Process and Related AU 260 Communications**

# Lansing Board of Water & Light Planned Audit Scope

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- ✓ Expression of an opinion on the June 30, 2015 financial statements and related pension plans
- ✓ Issue management letter or significant deficiency (AU 265) letter
- ✓ Issue required AU 260 communication letter

# Lansing Board of Water & Light Audit Engagement Team

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- ✓ Doug Rober, partner
- ✓ Marie Stiegel, manager
- ✓ Yan Zhuang, in-charge
- ✓ Nick Martin, staff

# Lansing Board of Water & Light Audit Process for June 30, 2015

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- ✓ **May - June** – Planning for the audit, including preparation of various questionnaires by your staff
- ✓ **June** – Phase I testing
- ✓ **July - August** – Meeting with governance, Phase 2 and rest of audit testing
- ✓ **September** – Issuance of final audited financial statements
- ✓ **September** – Issuance of required communication letter to governance

# Lansing Board of Water & Light Auditor Responsibility

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- ✓ Expression of an opinion on the financial statements
- ✓ Audits completed in accordance with generally accepted auditing standards
- ✓ Reasonable, rather than absolute assurance that the financial statements are free of material misstatement
- ✓ Understanding of internal control

# Lansing Board of Water & Light Management's Responsibility

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- ✓ Preparation of the financial statements
- ✓ Adopting sound accounting policies
- ✓ Developing sound internal controls – to ensure proper recording and presentation of accounting transactions and safeguarding of assets
- ✓ Preparation and submission of all regulatory documents to the appropriate state and federal regulators and other authorities



# Lansing Board of Water & Light

## Phase I Testing

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- ✓ Verify understanding of internal controls and transaction flow for the preparation of financial reporting
  - Management prepares accounting procedures questionnaires and control procedures questionnaires for each significant cycle within the financial reporting process
  - P&M to review each form received above, clarify, and ask questions to solidify the questionnaires with management
  - Internal pre-planning meeting to determine COIN (confirming, observing, and inspection – i.e. verification procedures) testing procedures to be performed for each questionnaire
  - Perform verification testing on-site
  - Determine Phase 1 analytical procedures by significant cycle
  - Required internal planning and fraud brainstorming meeting
  - Review results of testing and determine impact on Phase 2 and rest of audit testing

# Lansing Board of Water & Light

## Rest of Audit Testing

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- ✓ Completion of Phase 2 (final) analytical procedures for significant areas of the audits
- ✓ Concentration of efforts on the more significant balances, as well as those more susceptible to misstatement because of estimation process
- ✓ Confirmation with third parties
- ✓ Testing of significant and non-significant items using sampling guidance
- ✓ Review of significant estimates
- ✓ Management inquiries and representations

# Lansing Board of Water & Light

## AU 260: Required Discussion Points

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- ✓ Our approach on significant risks of material misstatement, due to fraud or error
- ✓ Our approach of internal controls relevant to the audit
- ✓ Concept of materiality in planning and executing the audit

# Lansing Board of Water & Light

## AU 260: Significant Risks of Misstatement

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- ✓ GASB 62 (*formerly FAS 71*) utilization & amortization
- ✓ Capitalization & disposal of capital assets
- ✓ Asset retirement obligations and impairment
- ✓ Purchase of & accounting for inventory
- ✓ Accounting for new cogeneration plant
- ✓ **NEW GASB EFFECTIVE FOR 06/30/2015 AUDIT:**
  - ✓ **GASB 68 – Accounting and Financial Reporting for Pensions**

# Lansing Board of Water & Light

## AU 260: Significant Risks of Misstatement

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- ✓ Understatement of accounts payables & other liabilities
- ✓ Recognition of revenue, including unbilled
- ✓ Environmental remediation
- ✓ Indirect cost capitalization rate
- ✓ Investment activity, contributions & disbursements – pension plans
- ✓ Other significant transactions during the year

# Lansing Board of Water & Light

## AU 260: Responses to Significant Risks of Misstatement

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- ✓ Targeted testing of transactions – supported by appropriate documentation and accounted for properly
- ✓ Analytical procedures
- ✓ Inquiry with Board, management, and others
- ✓ Department of Internal Audit results
- ✓ Other tests necessary to verify balances and disclosure amounts
- ✓ Unpredictable procedures with no advance notice

# Lansing Board of Water & Light

## AU 260: Required Discussion Points

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- ✓ The Board of Commissioners' views about:
  - The appropriate person(s) with whom to communicate;
  - Responsibilities between governance and management;
  - Objectives and strategies that may result in material misstatements;
  - Matters that warrant attention and/or additional procedures;
  - Other matters

# Lansing Board of Water & Light

## AU 260: Required Discussion Points

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- ✓ The attitudes, awareness, and actions of governance related to:
  - Overseeing the effectiveness of internal controls
  - Detection or possibility of fraud
- ✓ The actions of governance related to:
  - Financial reporting, laws, accounting standards, corporate governance practices and other
  - Previous communications with the auditor



# Lansing Board of Water & Light

## AU 260– Communication to Those Charged with Governance (Post-Audit)

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- ✓ Auditors are required to communicate several aspects of the audit process to “those charged with governance”
- ✓ Items to be communicated in writing:
  - Auditors responsibility under generally accepted auditing standards
  - Planned scope and timing of audit results
  - The auditor's views about significant accounting practices
  - Accounting estimates
  - Any difficulties encountered during the audit
  - Any material audit adjustments
  - Any uncorrected misstatements
  - Any disagreements with management
  - Representations requested from management
  - Any consultations by management with other accountants
  - Any significant issues arising from the audit that were discussed with management
  - Fraud and illegal acts

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## Lansing Board of Water & Light

# Your Questions



# Internal Audit Status Report

Presented by:  
Phil Perkins, Director of Internal Audit  
Finance Committee Meeting  
July 2015

# Overview

- FY 2015 Audit Plan Progress Report
- Proposed FY 2016 Audit Plan
- Other Items

# FY 2015 Audit Plan Progress Report

## Engagements Completed:

1. Materials Inventory Audit
2. BOC Independent Audit
3. IT – PCI Compliance Audit
4. Health and Prescription Drugs Plan Management Audit
5. Surprise Cash Counts (2)
6. Time Reporting Reviews (2)

# FY 2015 Audit Plan Progress, pg 2

## Engagements in Progress:

1. Engineering – Annual Projects Audit—fieldwork complete; final report to be issued in July 2015
2. Outage Management System Audit—fieldwork about complete; report to be issued in August
3. IT – Management of Non-PC Devices Audit—fieldwork about complete; report to be issued in August or September

# Proposed FY2016 Audit Plan - Background

## Basis for plan:

1. Meetings with Executives and Staff to discuss risks and potential audit topics.
2. Risk assessments for each of 100-plus auditable activities at BWL.
3. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
4. Identified over 20 potential audits to perform in FY 2016 and beyond.

# Proposed FY2016 Audit Plan - Background

Top 10 audits for FY 2016 (as discussed with senior management):

1. Follow-up of Selected CRT/MPSC/BWL Recommended Actions
2. Billing
3. IT – Information Security Policies
4. Training & Development
5. Safety Management
6. IT – Manage Changes
7. Hiring Process
8. Performance Evaluation/Compensation
9. Payroll
10. Facility Security



# Proposed FY2016 Audit Plan

Planned Audits:	Estimated Hours
Follow-up of Selected CRT/MPSC/BWL Recs.	300
Billing	500
IT – Information Security Policies	300
Training & Development	300
Safety Management	400
IT – Manage Changes	400
<b>Other Engagements:</b>	
Surprise Cash Counts (2)	40
Time Reporting Reviews (2)	160
Central Maintenance & Fleet Time/Resource Reporting	100
Other Consulting (NERC/CIP Compliance, IRP/Strat Plan)	100
Total Estimated Hours	<b><u>2,600</u></b>

# Proposed FY2016 Audit Plan, Cont'd

## Available Resources:

Resource	Position	Available Hours
Phil Perkins	Director of Internal Audit	1,500
C. L. Moore & Associates	Augmented IA Services	900
Internal or External IT Audit Assistance	IT Audit Services	200
Total Hours		<b><u>2,600</u></b>

# Proposed FY2015 Audit Plan, Cont'd

- Questions & Discussion of FY2015 Audit Plan
- Approval of FY2015 Audit Plan

# Other Items

- Internal Audit Charter – Annual Renewal with Proposed Changes – needs approval
- Charles Moore & Associates Contract – has been extended through FY 2016

# Other Items

## Internal Audit Charter – Recommended Changes from External Peer Review

- Charter needs to indicate compliance with the Institute of Internal Auditors’ required guidance:
  - Definition of Internal Audit
  - Internal Audit Code of Ethics
  - The International Professional Practices Framework (i.e., the “Standards”)
- Charter should also state that Internal Audit will:
  - Present a risk-based audit plan to the General Manager and the Board annually for review and approval.
  - Update the Board on the quality assurance improvement program including the results of internal reviews and external peer reviews.

**DRAFT – DISCUSSION ONLY**  
**Lansing Board of Water and Light**  
***Internal Audit Charter - Recommended 2015 Revision***

**Mission:**

The mission of internal audit is to provide independent, objective auditing and consulting services to the Board of Commissioners, enabling the Board to better serve customers, employees, and the community.

**Purpose:**

Internal audit's purpose is to add value and improve operations. It helps BWL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**Independence:**

The Internal Auditor is appointed annually by the Board of Commissioners, and reports to them through the Chair of the Finance Committee. For administrative purposes, the Internal Auditor also reports to the **General Manager**. To ensure independence, the internal audit function shall have no direct responsibility or any authority over any of the activities or operations of the BWL.

## **Authority:**

Internal Audit shall have unrestricted access to all activities, records, properties, and personnel. All processes, activities, and responsibility areas are subject to audit.

## **Responsibility and Scope:**

Management is responsible for establishing and maintaining risk management, control, and governance processes. Internal Audit is responsible to determine whether management's processes are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately **accounted for and** protected.
- Employees' actions are in compliance with policies, procedures, standards, laws, regulations and contracts.
- Programs, plans and objectives are achieved.

Regarding the scope of requested consulting activities, Internal Audit shall perform consulting and advisory services related to governance, risk management and control as appropriate for the organization.

**Standards:**

~~The Internal Auditor shall comply with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. The Internal Auditor shall consider and, where appropriate, comply with *Statements on Auditing Standards* of the American Institute of Certified Public Accountants.~~

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing (as shown in the purpose statement above), the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance .

As supplemental guidance for the performance of audits, the Internal Auditor shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office .



## **INTERNAL AUDIT PLAN:**

At least annually, the Director of Internal Audit will submit to the General Manager and the Board an internal audit plan for review and approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. Any significant deviation from the approved internal audit plan will be communicated to the General Manager and the Board through periodic activity reports.

## **PERIODIC ASSESSMENT:**

The Director of Internal Audit will communicate to the General Manager and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

## **Explanation for Changes:**

Standards require that the results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter. The annual audit plan is one of two key pieces of evidence to support this achievement. The periodic assessment process is the other key piece, besides the audit plan accomplishment, providing evidence to support this achievement.

***Resolution 2016-X-X***  
**INTERNAL AUDIT CHARTER**

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter, appended to the July 14, 2015, Finance Committee meeting minutes and the resolution as Attachment xx, which conforms to the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors. On [month/date], 2015, the Internal Audit Charter was approved by the Board of Commissioners and hereto referenced by Resolution 2016-x-xx.

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**Motion:**

**Action:**

**FINANCIAL SUMMARY FOR  
April-15**

**Cash Balance**

	Month End Balance	Target	Difference	%
<b>O&amp;M Fund</b>	\$ 81,928,131	\$ 80,126,021	\$ 1,802,110	2%
Days Cash on Hand	179	180		
Credit Rating	AA-			
Debt Service Coverage - Rating Agencies	1.70	2.35		
Debt Service Coverage - Bond Covenants	2.28	1.25		
<b>Total Cash</b>	\$ 213,828,299 =	\$ 81,928,131 +	\$ 91,146,980 +	\$ 40,753,188
		O&M Fund	Designated Funds	Restricted Funds

**Budget Status O&M - YTD**

	Actual YTD	YTD Budget	Difference	%
Excluding Fuel	\$ 114,722,616	\$ 119,943,658	\$ (5,221,042)	-4%

**Financial Statements YTD**

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	(%) +/-
Revenue	\$ 293,774,451	\$ 309,604,663	\$ (15,830,212)	-5%	\$ 291,092,739	\$ 2,681,712	0.9%
Retail	\$ 267,811,370	\$ 273,802,681	\$ (5,991,311)		\$ 261,520,113	\$ 6,291,257	2.4%
Wholesale	\$ 25,963,081	\$ 35,801,982	\$ (9,838,901)		\$ 29,572,626	\$ (3,609,545)	-12.2%
Oper Expense	\$ 255,636,382	\$ 274,325,489	\$ (18,689,107)	-7%	\$ 249,281,308	\$ 6,355,074	2.5%
Non Oper	\$ (26,115,367)	\$ (30,088,095)	\$ 3,972,727		\$ (25,893,964)	\$ (221,403)	0.9%
Net Income	\$ 12,022,702	\$ 5,191,079	\$ 6,831,623		\$ 15,917,467	\$ (3,894,765)	-24.5%

	Actual YTD	YTD Budget	Target
<b>Return on Assets</b>	3.10%	2.40%	6.18%

**Ratios**

**Operating Ratio**

O&M Expenses	/	Revenue	=	Measures efficiency	APPA Median
\$ 223,476,458		\$ 293,774,451		0.761	0.719

**Current Ratio**

Current Assets	/	Current Liabilities	=	Measures Liquidity	APPA Median
\$ 278,016,800		\$ 42,378,729		6.560	1.800

**Debt to Total Assets**

LT Debt + Accrued Liabilities	/	Total Assets	=	Measures Leverage	APPA Median
\$ 408,095,960		\$ 1,160,659,992		0.352	0.579

**Revenue per KWh**

	KWH	Electric Revenue	Revenue/KWH	Last YTD
<b>Retail</b>				
Residential	474,066,969	\$ 66,451,703	0.140	0.131
Commercial	955,202,953	\$ 112,090,395	0.117	0.112
Industrial	303,409,328	\$ 30,777,702	0.101	0.094
Wholesale	577,767,152	\$ 23,363,430	0.040	0.048
Other	30,950,298	\$ 11,869,593	N/A	N/A

**Receivable Turnover**

Sales	/	Accounts Receivable Balance	=	Turnover	Last YTD
\$ 293,774,451		\$ 19,469,230		15.09	12.49

**Bad Debt**

Actual YTD	YTD Budget	Over/(under)	% of Revenue Total	Last YTD
\$ 2,384,837.22	\$ 1,666,666.66	\$ 718,170.56	0.81%	0.52%

**Employee Data**

	Actual YTD	YTD Budget	Over/(under)
Employee Count	735	743	(8)
	Bargaining = 474 64.49%		
	Non Bargaining= 261 35.51%		

**Payroll Data**

	Actual YTD	YTD Budget	Difference	Actual Prior YTD	Difference	(%) +/-
Total Labor	\$ 48,751,581	\$ 48,683,347	\$ 68,234	\$ 45,335,502	\$ 3,416,079	7.5%
Regular	\$ 42,116,898	\$ 43,574,507	\$ (1,457,609)	\$ 39,130,276	\$ 2,986,622	7.6%
Overtime	\$ 6,634,683	\$ 5,108,840	\$ 1,525,843	\$ 6,205,226	\$ 429,457	6.9%
Total Hours Worked	1,097,866			1,015,423		
Labor Expense/Hours Worked	\$ 44.41			\$ 44.65		
APPA Median	\$ 41.57					

**Benefits Cost**

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	\$ 11,638,734	\$ 10,739,045	\$ 899,689
RX	\$ 2,568,255	\$ 2,489,700	\$ 78,555
Dental	\$ 956,468	\$ 1,094,810	\$ (138,342)
Life	\$ 196,042	\$ 264,650	\$ (68,608)
FICA	\$ 3,594,619	\$ 3,647,845	\$ (53,226)
Other	\$ 1,503,376	\$ 2,906,254	\$ (1,402,878)
<b>Total</b>	<b>\$ 20,457,495</b>	<b>\$ 21,142,304</b>	<b>\$ (684,809)</b>

Operating Ratio - Measures the proportion of revenues to cover the operation and maintenance costs

Current Ratio - Measures whether current assets are sufficient to pay current liabilities within one year.

Debt to Total Assets Ratio - Measures the ability to meet its current and long-term liabilities based on the availability of assets.

\* APPA Median Source is the APPA Selected Financial and Operating Ratios of Public Power Systems, 2013 Data. Specifically Utilities with over 100,000 Customer Class Size

This publication is always 2 years behind

**FINANCIAL SUMMARY FOR  
May-15**

**Cash Balance**

	Month End Balance		Target		Difference	%
<b>O&amp;M Fund</b>	\$	91,352,895	\$	80,126,021	\$ 11,226,874	12%
Days Cash on Hand		180		180		
Credit Rating		AA-		AA-		
Debt Service Coverage - Rating Agencies		1.74		2.35		
Debt Service Coverage - Bond Covenants		2.36		1.25		

<b>Total Cash</b>	\$	217,865,628	=	\$	91,352,895	+	\$	91,442,832	+	\$	35,069,901
					O&M Fund			Designated Funds			Restricted Funds

**Budget Status O&M - YTD**

	Actual YTD	YTD Budget	Difference	%
Excluding Fuel	\$ 129,226,567	\$ 134,005,428	\$ (4,778,861)	-4%

**Financial Statements YTD**

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	(%) +/-
Revenue	\$ 323,767,203	\$ 338,992,455	\$ (15,225,252)	-4%	\$ 317,503,903	\$ 6,263,300	2.0%
Retail	\$ 295,204,817	\$ 299,507,781	\$ (4,302,964)		\$ 285,187,356	\$ 10,017,461	3.5%
Wholesale	\$ 28,562,386	\$ 39,484,674	\$ (10,922,288)		\$ 32,316,547	\$ (3,754,161)	-11.6%
Oper Expense	\$ 283,481,624	\$ 303,234,871	\$ (19,753,247)	-7%	\$ 274,958,755	\$ 8,522,869	3.1%
Non Oper	\$ (28,640,131)	\$ (33,001,204)	\$ 4,361,073		\$ (27,947,195)	\$ (692,936)	2.5%
Net Income	\$ 11,645,448	\$ 2,756,380	\$ 8,889,068		\$ 14,597,953	\$ (2,952,505)	-20.2%
Projected Net Income	\$ 8,708,429						

	Actual YTD	YTD Budget	Target
<b>Return on Assets</b>	3.28%	2.23%	6.18%

**Ratios**

Operating Ratio	O&M Expenses	/	Revenue	=	Measures efficiency	APPA Median
	\$ 248,102,242		\$ 323,767,203		0.766	0.719

Current Ratio	Current Assets	/	Current Liabilities	=	Measures Liquidity	APPA Median
	\$ 196,128,597		\$ 72,126,736		2.719	1.800

Debt to Total Assets	LT Debt + Accrued Liabilities	/	Total Assets	=	Measures Leverage	APPA Median
	\$ 438,730,935		\$ 1,028,894,003		0.426	0.579

Revenue per KWh	KWH	Electric Revenue	Revenue/KWH	Last YTD
Retail				
Residential	512,884,167	\$ 72,631,870	0.142	0.131
Commercial	1,045,782,403	\$ 124,535,355	0.119	0.113
Industrial	334,251,620	\$ 34,401,408	0.103	0.094
Wholesale	641,112,620	\$ 25,701,619	0.040	0.048
Other	33,254,562	\$ 12,892,369	N/A	N/A

Receivable Turnover	Sales	/	Accounts Receivable Balance	=	Turnover	Last YTD
	\$ 323,767,203		\$ 21,562,451		14.90	14.99

Bad Debt	Actual YTD	YTD Budget	Over/(under)	% of Revenue Total	Last YTD
	\$ 2,384,837.22	\$ 1,666,666.66	\$ 718,170.56	0.74%	0.48%

**Employee Data**

Employee Count	Actual YTD	YTD Budget	Over/(under)
	734	756	(22)
	Bargaining = 471 64.17%		
	Non Bargaining= 263 35.83%		

Payroll Data	Actual YTD	YTD Budget	Difference	Actual Prior YTD	Difference	(%) +/-
Total Labor	\$ 56,481,704	\$ 55,658,938	\$ 822,766	\$ 51,993,827	\$ 4,487,877	8.6%
Regular	\$ 48,959,522	\$ 49,843,809	\$ (884,287)	\$ 44,851,442	\$ 4,108,080	9.2%
Overtime	\$ 7,522,182	\$ 5,815,129	\$ 1,707,053	\$ 7,142,385	\$ 379,797	5.3%
Total Hours Worked	1,259,142			1,168,504		
Labor Expense/Hours Worked	\$ 44.86			\$ 44.50		
APPA Median	\$ 41.57					

**Benefits Cost**

(Including Retirees)	Actual YTD	YTD Budget	Difference
Health	\$ 12,809,921	\$ 11,772,039	\$ 1,037,882
RX	\$ 2,868,066	\$ 2,738,670	\$ 129,396
Dental	\$ 1,058,944	\$ 1,204,291	\$ (145,347)
Life	\$ 219,821	\$ 291,114	\$ (71,293)
FICA	\$ 4,142,006	\$ 4,168,966	\$ (26,960)
Other	\$ 1,669,432	\$ 3,175,368	\$ (1,505,936)
	\$ 22,768,191	\$ 23,350,448	\$ (582,257)

Operating Ratio - Measures the proportion of revenues to cover the operation and maintenance costs

Current Ratio - Measures whether current assets are sufficient to pay current liabilities within one year.

Debt to Total Assets Ratio - Measures the ability to meet its current and long-term liabilities based on the availability of assets.

\* APPA Median Source is the APPA Selected Financial and Operating Ratios of Public Power Systems, 2013 Data. Specifically Utilities with over 100,000 Customer Class Size  
This publication is always 2 years behind

# FY 2016-2021 Financial Plan



Finance Committee Meeting July 14, 2015  
Board Meeting July 28, 2015

# FY 2016-2021 Financial Plan

- Six-Year Operating Forecast
  - Financial Goals
  - Financial Assumptions
  - Rate of Return
- Six-Year Capital Forecast
- Already Completed and Next Steps

# Six-Year Operating Forecast

*FY 2016 – FY 2021*

# Financial Goals

- Maintain credit quality
  - BWL is currently a AA- Rated Utility
- Ensure adequate liquidity
  - Ability to meet near term obligations when due
  - Days Cash on Hand 135 for Fiscal Year 2016
  - Median days cash for AA- rated utilities is 180\*
- Maintain rate competitiveness
- 6.18% Rate of Return



# Financial Assumptions

- Projected sales levels
  - Electric – Modest increases in residential and industrial sales and decline in wholesale sales as Eckert nears the end of its useful life.
  - Water – Slight decline in retail. Slight increase in wholesale.
  - Steam – No significant growth.
  - Chilled Water – No significant growth.
- Operating expenses are forecast to increase from FY 2016 through FY 2021 at a 2.3% inflationary rate for general costs and a 5% rate for employee benefit costs.

# Rate of Return

- In August 2008, the Board approved a target rate of return of 6.18%
- The rate of return was determined using a methodology provided by Utility Financial Solutions and used by municipal utilities where the Board also indicated that the approach should allow for flexibility to adjust the calculated return upward for large construction projects and other unusual circumstances.
- Under this methodology, a rate of return is calculated that blends the utilities borrowing rate with double the inflation rate
- This return allows the utility to pay for interest costs and also provides for the replacement of aging infrastructure as it is removed from service
- The target return in dollars is calculated by multiplying the rate of return by the utility's rate base which includes net fixed assets and inventory
- The rate of return achieved is calculated with the following formula:
  - $(\text{Net Income} - \text{Interest Income} + \text{Interest Expense}) / (\text{Net Fixed Assets} + \text{Inventory})$
- The forecast presented is based on the previously calculated 6.18% return. Given the Board Resolution provides flexibility to adjust the calculated return for large construction projects and other unusual circumstances, it will be best to update the return calculation in conjunction with the IRP process to ensure the calculated return target considers the direction dictated by the findings of the IRP.

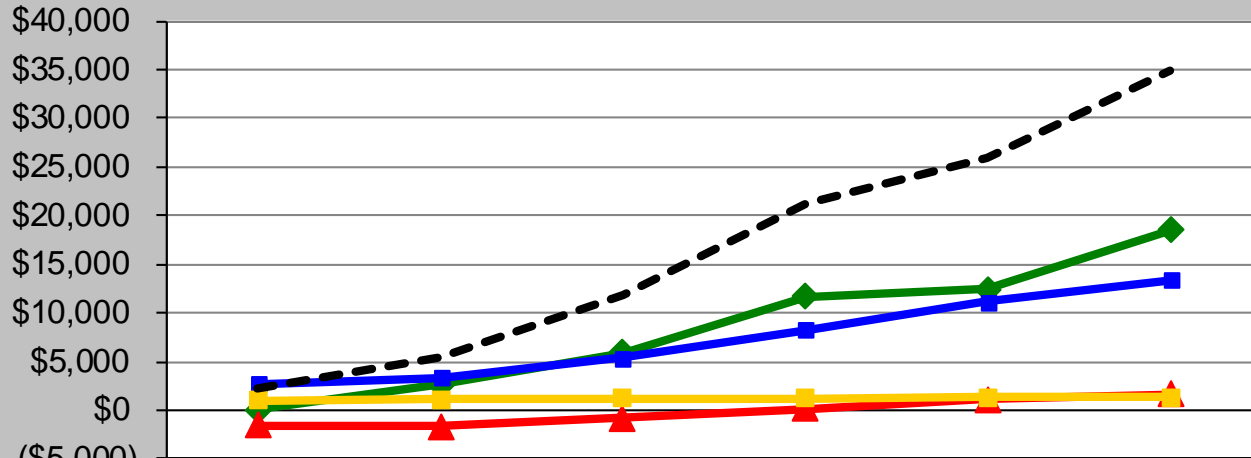
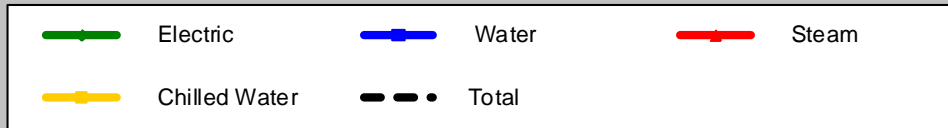
## FY2016 - FY2021 Six Year Forecast

<i>In \$000's</i>	2016	2017	2018	2019	2020	2021
<b>Rate Increase:</b>						
Electric	0.0%	2.0%	3.0%	3.0%	3.0%	3.0%
Water	0.0%	9.0%	9.0%	9.0%	9.0%	5.0%
Steam	0.0%	9.0%	9.0%	9.0%	9.0%	5.0%
Chilled Water	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Income (Loss):</b>						
Electric	\$ 55	\$ 2,624	\$ 5,891	\$ 11,652	\$ 12,445	\$ 18,467
Water	\$ 2,693	\$ 3,354	\$ 5,415	\$ 8,263	\$ 11,154	\$ 13,423
Steam	\$ (1,502)	\$ (1,624)	\$ (744)	\$ 128	\$ 1,132	\$ 1,625
Chilled Water	\$ 1,015	\$ 1,122	\$ 1,191	\$ 1,241	\$ 1,294	\$ 1,292
<b>Total Net Income</b>	<b>\$ 2,261</b>	<b>\$ 5,476</b>	<b>\$ 11,753</b>	<b>\$ 21,284</b>	<b>\$ 26,025</b>	<b>\$ 34,807</b>
<b>Return on Rate Base</b>						
Electric	2.3%	3.0%	3.6%	4.2%	4.5%	6.1%
Water	2.0%	2.3%	3.1%	4.2%	5.3%	6.2%
Steam	0.6%	0.4%	1.8%	3.0%	4.3%	5.0%
Chilled Water	5.9%	6.2%	6.5%	6.8%	7.0%	6.9%
<b>Total</b>	<b>2.2%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>4.2%</b>	<b>4.8%</b>	<b>6.1%</b>
<b>Unrestricted Cash Balance</b>	<b>\$ 117,369</b>	<b>\$ 101,876</b>	<b>\$ 82,333</b>	<b>\$ 71,799</b>	<b>\$ 88,015</b>	<b>\$ 119,689</b>
<b>Days Cash on Hand</b>	<b>135</b>	<b>117</b>	<b>94</b>	<b>82</b>	<b>98</b>	<b>133</b>

# Annual Net Income by Utility

## Annual Net Income

in \$000's



	2016	2017	2018	2019	2020	2021
Electric	\$55	\$2,624	\$5,891	\$11,652	\$12,445	\$18,467
Water	\$2,693	\$3,354	\$5,415	\$8,263	\$11,154	\$13,423
Steam	\$(1,502)	\$(1,624)	\$(744)	\$128	\$1,132	\$1,625
Chilled Water	\$1,015	\$1,122	\$1,191	\$1,241	\$1,294	\$1,292
Total	\$2,261	\$5,476	\$11,753	\$21,284	\$26,025	\$34,807

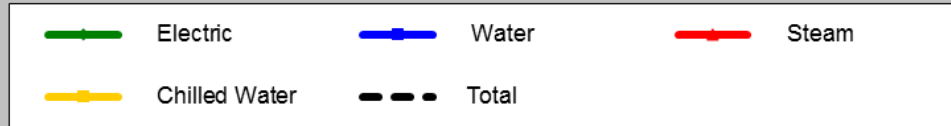
# Without Forecast Rate Increases

## FY2016 - FY2021 Six Year Forecast

<i>In \$000's</i>	2016	2017	2018	2019	2020	2021
<b>Rate Increase:</b>						
Electric	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Water	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Steam	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chilled Water	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Income (Loss):</b>						
Electric	\$ 55	\$ 2,773	\$ (1,721)	\$ (3,667)	\$ (10,789)	\$ (12,948)
Water	\$ 2,693	\$ 2,313	\$ 1,303	\$ 817	\$ 90	\$ (935)
Steam	\$ (1,502)	\$ (1,933)	\$ (2,030)	\$ (2,224)	\$ (2,381)	\$ (2,961)
Chilled Water	\$ 1,015	\$ 1,122	\$ 1,191	\$ 1,241	\$ 1,294	\$ 1,292
<b>Total Net Income</b>	<b>\$ 2,261</b>	<b>\$ 4,275</b>	<b>\$ (1,257)</b>	<b>\$ (3,833)</b>	<b>\$ (11,786)</b>	<b>\$ (15,552)</b>
<b>Return on Rate Base</b>						
Electric	2.3%	3.1%	2.0%	1.1%	-0.3%	-0.4%
Water	2.0%	1.8%	1.3%	1.0%	0.7%	0.2%
Steam	0.6%	-0.1%	-0.2%	-0.5%	-0.7%	-1.6%
Chilled Water	5.9%	6.2%	6.5%	6.8%	7.0%	6.9%
<b>Total</b>	<b>2.2%</b>	<b>2.5%</b>	<b>1.7%</b>	<b>1.1%</b>	<b>0.2%</b>	<b>-0.1%</b>
<b>Unrestricted Cash Balance</b>	<b>\$ 117,369</b>	<b>\$ 102,054</b>	<b>\$ 69,775</b>	<b>\$ 34,349</b>	<b>\$ 12,928</b>	<b>\$ (5,582)</b>
<b>Days Cash on Hand</b>	<b>135</b>	<b>118</b>	<b>79</b>	<b>39</b>	<b>14</b>	<b>-6</b>

# Annual Net Income by Utility Without Forecast Rate Increases

## Annual Net Income in \$000's



	2016	2017	2018	2019	2020	2021
Electric	\$55	\$2,773	\$(1,721)	\$(3,667)	\$(10,789)	\$(12,948)
Water	\$2,693	\$2,313	\$1,303	\$817	\$90	\$(935)
Steam	\$(1,502)	\$(1,933)	\$(2,030)	\$(2,224)	\$(2,381)	\$(2,961)
Chilled Water	\$1,015	\$1,122	\$1,191	\$1,241	\$1,294	\$1,292
Total	\$2,261	\$4,275	\$(1,257)	\$(3,833)	\$(11,786)	\$(15,552)

# FY2016 – FY2021 Six-Year Capital Forecast



Finance Committee Meeting July 14, 2015  
Board Meeting July 28, 2015

**CAPITAL PROJECTS SUMMARY  
SIX YEAR FORECAST FY 2016 - 2021  
BOARD OF WATER AND LIGHT**

Dollars in (000's)

<b>UTILITY</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Six-Year Total</b>
<b>ELECTRIC</b>	38,962	42,187	55,845	56,049	30,448	26,839	250,330
<b>WATER</b>	8,106	11,892	9,777	12,026	9,883	8,985	60,668
<b>STEAM</b>	4,506	3,992	6,281	7,081	4,932	1,952	28,744
<b>CHILLED WATER</b>	300	375	304	158	162	166	1,463
<b>COMMON</b>	13,197	4,291	2,408	2,529	2,652	2,780	27,856
<b>TOTAL BUDGET</b>	<b>65,072</b>	<b>62,736</b>	<b>74,614</b>	<b>77,842</b>	<b>48,076</b>	<b>40,721</b>	<b>369,062</b>

<b>LOCATION</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Six-Year Total</b>
<b>ECKERT</b>	8,026	853	105	108	110	113	9,315
<b>ERICKSON</b>	1,600	760	12,202	15,999	53	-	30,613
<b>REO</b>	-	-	-	-	-	522	522
<b>T&amp;D</b>	40,009	55,241	59,078	56,316	43,280	37,359	291,283
<b>WISE</b>	-	-	-	1,022	1,000	-	2,022
<b>DYE/CEDAR</b>	1,355	929	173	1,600	182	187	4,427
<b>OTHER</b>	14,081	4,954	3,056	2,798	2,928	3,063	30,879
<b>TOTAL BUDGET</b>	<b>65,072</b>	<b>62,736</b>	<b>74,614</b>	<b>77,842</b>	<b>47,554</b>	<b>41,243</b>	<b>369,062</b>



# FY 2016-2021 Capital Budget – Major Projects/Programs

<u>Project Title</u>	<u>Project Total</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>Forecast Total</u>
SAP CRB (CARE)	14,828,000	6,907,000						6,907,000
* Erickson to Willow 138kV Line Extension	20,100,000	3,500,000	10,600,000	5,700,000				19,800,000
Moore's Park Dam Gate Hoist and Phase 2 Dam Repairs	4,160,000	3,010,000	750,000					3,760,000
ESI Annual Rebuild T&D Systems	19,175,984	3,002,000	3,077,050	3,153,976	3,232,825	3,313,646	3,396,487	19,175,984
FY 2016 Lead Service Replacement	42,812,000	2,700,000	2,800,000					5,500,000
Smart Grid Implementation	30,950,000	2,500,000	6,400,000	5,800,000	5,800,000	5,800,000	4,450,000	30,750,000
Street, Building and Outdoor Protective Lighting	16,258,250	2,260,000	2,660,000	2,726,500	2,800,000	2,870,000	2,941,750	16,258,250
Services and Line Extensions	15,927,844	2,200,000	2,600,000	2,610,000	2,722,750	2,838,318	2,956,776	15,927,844
* Wise Substation double Ending	7,160,000	2,050,000	2,600,000	2,510,000				7,160,000
* North East Static VAR compensator	10,000,000	2,000,000		999,999	7,000,000			10,000,000
Eckert Unit 4, 5, and 6 Mercury Capture ACI System	2,249,441	1,967,441						1,967,441
Annual Purchase/Scrap Transformers/Regulators	8,847,013	1,385,000	1,419,625	1,455,115	1,491,493	1,528,780	1,567,000	8,847,013
Frandon Overhead 4160V Sub Cutover and Retirement	1,375,000	1,350,000						1,350,000
Michigan Ave Stm from Washtn to Alley 6	1,326,600	1,326,600						1,326,600
Substation Modernization - EOP 8	1,894,500	1,294,500						1,294,500
Forbes 4160V Substation Retirement	2,823,900	1,230,000	290,000					1,520,000
FY 2016, Budget Line 31: Annual Manhole Rplcmt	7,674,223	1,186,416	1,222,008	1,258,668	1,296,429	1,335,321	1,375,381	7,674,223
Eckert Steam Send-Out	1,090,000	1,030,000						1,030,000
* Wise Bus 2 Distribution	3,000,000	1,000,000	500,000	1,000,000	500,000			3,000,000
* Miller 8320 Cutover	1,500,000	1,000,000	500,000					1,500,000
ADMS	2,000,000	1,000,000	1,000,000					2,000,000

\* These projects are part of the Electric Transmission & Distribution Plan

# Already Completed and Next Steps

- FY 2016 Operating & Capital Budgets
  - Approved at May 26<sup>th</sup> Board meeting
  - Filed with the City Clerk within 10 days (June 4<sup>th</sup>) after adoption in compliance with City Charter
- Accept as presented the Capital Forecast for FY 2017-2021 and submit to the Mayor prior to October 1
  - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1

**PROPOSED RESOLUTION**  
Fiscal Year 2017-2021 Capital Forecast

RESOLVED, that the forecast for capital expenditures for the Fiscal Years 2017-2021 is hereby accepted as presented.

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Staff Comments: Capital expenditures for Fiscal year 2016-2021 are estimated to be \$369 million. The 2016 Capital budget was previously adopted by the Board of Commissioners. Staff recommends the remaining years of the forecast be accepted as presented.

## **PROPOSED RESOLUTION**

### **Credit Card Policy**

RESOLVED, that Board of Water and Light Policy 7-05 "Credit Card" is hereby amended to add the following:

RESOLVED, that all Board appointed employees, including the General Manager, Corporate Secretary, and Internal Auditor shall complete, sign, and date a reconciliation report for their credit card also referred to as procurement card or P-card, after each cycle.

RESOLVED, that the reconciliation report shall include itemized receipts and a description of the business purpose of the transaction. Transaction description of meal expenses shall include the name and organization of the meal guest(s).

RESOLVED, that the Board appointed employee shall sign, date, and present their reconciliation report to the Chairperson of the Finance Committee after the close of each cycle. The Chairperson of the Finance Committee shall review, sign, date, and return the reconciliation report to the employee. The Board appointed employee shall retain the signed reconciliation report as directed by the BWL Record Retention Policy.

FURTHER RESOLVED, that this policy may not be waived or overridden, except by Board resolution.

This resolution supersedes Resolution 2001-1-3.

Staff Comments: This resolution is needed to ensure Board appointed employees' procurement cards are adequately reconciled and proper approvals are received.

**PROPOSED RESOLUTION**  
Capital Project Exceedance Approval

RESOLVED, that Board of Water and Light Policy 15-02 “Capital Project Approval” is hereby amended as follows:

RESOLVED, that Board of Water and Light Policy 15-02 “Capital Project Approval” is renamed “Capital Project Exceedance Approval”; and

RESOLVED, that any approved capital project that is expected to exceed its total budget amount by both 15% and \$200,000 must have the exceedance approved by the Commissioners prior to completion of the project; and

RESOLVED, the General Manager shall report the expected exceedance to the Commissioners as soon as reasonably possible; and

RESOLVED, this policy applies to the aggregate total budget amounts for electric, water, steam, and chilled water “annual” capital projects and to the individual total budget amounts for “planned” capital projects; and

RESOLVED, the General Manager shall establish and implement procedures overseeing capital project costs consistent with this policy; and

FURTHER RESOLVED, item 5 under the Board of Commissioners’ Responsibility as part of Policy 19-08 “Line Extensions and Service Territory Expansion” shall be removed from this Policy to eliminate redundant information as contained within Policy 15-02.

This resolution supersedes Resolutions 2000-3-2 and 2001-6-16.

Staff Comments: This change to capital project approval is needed to provide clarity regarding Board approval and reporting requirements for capital budget variances.