

AGENDA

FINANCE COMMITTEE MEETING

September 8, 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 7/14/15.....**TAB 1**
2. Plante & Moran, PLLC External Audit Report**TAB 2**
3. July Preliminary Financial Highlights.....**(INFO ONLY)**
4. Review of Internal Audit Quarterly Open Issue List.....**TAB 3**
5. Internal Audit Process/2015-16 Audit Plan Modification**TAB 4**
6. Public Comments

Other

Adjourn

FINANCE COMMITTEE

July 14, 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, July 14, 2015.

Finance Committee Chairperson Dennis M. Louney called the meeting to order and asked that roll be taken.

Present: Commissioners Dennis M. Louney, Margaret Bossenbery, Tony Mullen and Sandra Zerkle. Also, present Commissioners David Price and Ken Ross. Non-Voting Members Present: Commissioners Mike Froh (Meridian Township), Bill Long (Delta Township) and Bob Nelson (East Lansing)

Absent: None.

The Corporate Secretary's Executive Assistant 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.

External Audit Communication to the Board – Presented by Plante & Moran

Heather Shawa-DeCook, Chief Financial Officer (CFO) introduced external auditor Doug Rober, Partner with Plante Moran (P&M) and Marie Stiegel, CPA with P&M, who reviewed and presented the Auditing Process.

Mr. Rober said this is the beginning of the annual audit process for the various BWL pension trust funds. Part of that process is to meet and present governance with a projected audit process summary and have dialogue regarding any concerns.

Marie Stiegel reviewed Management's responsibility in the Audit process as well as the following:

- Audit Process
- Auditor Responsibility
- Management Responsibility
- Testing Phases
- Required Discussion Points
- Significant Risk Misstatement

- Responses to Significant Risk Misstatement
- Additional Required Discussion Points
- Communication to those Charged with Governance

Board Chair David Price was indicated as the appropriate contact person for questions or concerns.

Mr. Rober asked the Board of Commissioners if there were any areas of concern that warrant attention or additional procedures. There were no responses.

Internal Audit Update

Internal Auditor Phil Perkins, presented an overview of the following information:

Internal Auditor Status Update

- 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)

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
Other Engagements:	
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	2,600



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		2,600



Motion by Commissioner Bossenbery, Seconded by Zerkle, to forward the Internal Auditor's Audit Plan to the full board for consideration.

Action: Motion Carried

Internal Auditor, Phil Perkins presented two proposed changes to the Internal Audit Charter: (1) language changes to emphasize the mandatory nature of complying with the definition of Internal Auditing, Code of Ethics, and Institute of Internal Auditors' Standards, and (2) addition of requirements to present to the Board the annual audit plan for approval and other periodic updates to inform the Board of Internal Audit's efforts on quality assurance, continuous improvement, and the results of internal and external peer reviews.

Motion by Commissioner Bossenbery, Seconded by Mullen, to forward the Internal Audit Charter to the full board for consideration.

Motion by Commissioner Bossenbery, Seconded by Commissioner Zerkle, to forward the Internal Auditor Charter with amendments to clarify the presented plan to the full Board for consideration. Amended by inserting the text highlighted in yellow:

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 **Board** 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 **annually** 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.

Motion Carried on the amendment by unanimous consent.

The question being the motion to forward the Internal Auditor's Audit Charter as amended to the full board for consideration.

Action: Motion Carried

Charles L. Moore, CPA of Charles Moore and Associates provided information about his business/firm which performs augmented internal auditing services for BWL, including his contracted responsibilities in assisting the BWL Internal Auditor with audit planning and execution.

April and May 2015 Financial Highlights

Heather Shawa-DeCook, Chief Financial Officer (CFO), provided an update to the Committee on the Board of Water and Light's (BWL) credit rating. The Board of Water & Light's credit rating since August of 2003 is 'AA-'. This rating is in the top third of S&P investment-grade for public utilities and deemed a very solid rating.

Ms. Shawa-DeCook provided the Committee with a brief overview of the BWL's April and May month-end financials by reporting the following information:

Ms. Shawa-DeCook noted that BWL's April cash flow was slightly over target of 80 million for cash on hand, and May's financial summary in month-end reported 10 million over target, due to [BWL's] bi-annual obligation for return on equity payment. Additionally, Ms. Shawa-DeCook stated that [BWL's] June year-end is expected to be more in line with our target of 80 million. Moreover, Ms. Shawa-DeCook stated that [BWL's] revenue is still tracking under budget, to wit: May reported at 15 million, or 4% under budget. However, she stated that the [BWL] did gain a percent between April and May; in February, the [BWL] had a variance of 7%, the same has reported at 4% in May. Ms. Shawa-DeCook expressed that she expects June year-end to be around 4% variance overall. According to Ms. Shawa-DeCook, in lieu of the variance of revenue, the [BWL] is tracking positive variance from net income, which directly contributes to [BWL's] O&M budget, which was set to be reduced by 3%. The [BWL] has exceeded that number and is now tracking at approximately 7% under O&M budget. Ms. Shawa-DeCook stated that this has not been an easy task for the management team, and that they all have done a great job at having full oversight on their budget and managing it. Additionally, Ms. Shawa-DeCook has stated that this has not been at an expense of safety, storm preparedness and operational needs. She applauded the management team for doing a great job.

In closing, Ms. Shawa-DeCook stated that her staff is finalizing preliminary unaudited June fiscal year-end statements which will be provided at the next meeting.

Six Year Forecast Overview/Resolution

Heather Shawa-DeCook, Chief Financial Officer (CFO), reviewed the Six Year Financial Plan, including the following information:

- Financial Goals
- Financial Assumptions
- Rate of Return
 - Annual Net Income by Utility
 - Without Forecast Rate Increases
 - Annual Net Income by Utility Without Forecast Rate Increases
- Capital Forecast
- Capital Budget – Major Projects/Programs
- Already Completed and Next Steps

Ms. Shawa-DeCook stated that BWL's financial goals, in addition to maintaining an AA- credit rating is to ensure adequate liquidity so that the BWL can meet near-term obligations when due. According to Ms. Shawa-DeCook, BWL's cash on hand for fiscal year 2016 is forecasted at 135 days, however, Ms. Shawa-DeCook noted that the BWL is keeping an eye on this matter because the median day's cash for AA- rating is 180 days. Another financial key goal for [BWL] is to maintain rate competitiveness, and this Six Year Forecast Overview has factored in the 6.18% rate of return.

Ms. Shawa-DeCook stated that [BWL] projects a modest increase in residential and industrial sales, and a conservative decline in wholesale sales. As Eckert nears the end of its useful life, [BWL] projects slight decline in water sale and slight increase in wholesale. With respect to steam and chilled water, the [BWL] is not assuming any significant growth.

Ms. Shawa-DeCook noted that in terms of operating expenses, 2.3% inflationary rate is forecasted, including general cost and 5% for employee benefit. Ms. Shawa-DeCook further noted that in August of 2008, the Board approved a target rate of return of 6.18% and that the Board's approach was to allow for flexibility to adjust the calculated return upward for large construction projects and other unusual circumstances. As such, Ms. Shawa-DeCook noted that the Six Year Forecast is being presented for acceptance based on achieving previously calculated rate of 6.18% by the end of the 6th year. Additionally, Ms. Shawa-DeCook noted that it may be best to update the return in conjunction with the IRP process to ensure the calculated return target considers the direction dictated by the findings of the IRP.

Ms. Shawa-DeCook presented BWL's total budget over the next 6 years as well as high-level summary of BWL's major projects and programs.

There was a lengthy conversation regarding the proposed contract and resolution. Upon conclusion of the conversation and the questions and answer session, the following motion was offered:

Motion by Commissioner Louney, Seconded by Commissioner Mullen, to accept the capital expenditures forecast for fiscal year 2017 through 2012.

Action: Motion Carried

Credit Card Policy Resolution

Heather Shawa-DeCook, Chief Financial Officer (CFO), stated that per the request of the Commissioners, Internal Auditor, Phil Perkins' special internal audit findings recommendation was to have the P-cards, receipts and reconciliation of the three Board-appointed employees, be reviewed and approved by the Board of Commissioners. Ms. Shawa-DeCook reiterated the Resolution with emphasis that the Board-appointed employees shall sign, date and present their reconciliation report to the Chair of the Finance Committee at the close of each cycle and

thereafter, the Chair of the Finance Committee shall review, sign, date and return the reconciliation report to the employee.

There was a lengthy conversation regarding the proposed contract and resolution. Upon conclusion of the conversation and the questions and answer session, the following motion was offered:

Motion by Commissioner Bossenbery, Seconded by Commissioner Zerkle, to forward the Resolution for the approval of the Credit card Policy.

Action: Motion Carried

Capital Project Exceedance Approval

Heather Shawa-DeCook, Chief Financial Officer (CFO), stated that per the request of the Commissioners, Internal Auditor, Phil Perkins' special internal audit findings, the recommendation was 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 the completion of the project.

Commissioner Ross suggested amending the Resolution so it says '\$200,000 or more.'

Motion by Commissioner Bossenbery, Seconded by Commissioner Zerkle, to move the resolution with amendment.

Action: Motion Carried

Other

Interim General Manager Peffley thanked Internal Auditor, Phil Perkins for his work.

Adjourn

On Motion by Commissioner Louney, Seconded by Commissioner Bossenbery, the meeting adjourned at 9:38 p.m.

Respectfully submitted
Dennis M. Louney, Chair
Finance Committee

PROPOSED RESOLUTION

**Fiscal Year 2015 Audited Financial Statements
of the Enterprise Fund and Pension Fiduciary Funds**

RESOLVED, that the fiscal year 2015 Audited Financial Statements of the Board of Water and Light have been reviewed and are hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2015 Audited Financial Statements of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2015.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2015 Audited Finance Statements of the Board of Water and Light with the City of Lansing.



Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

August 31, 2015

To the Board of Commissioners
Lansing Board of Water and Light

We have audited the following financial statements (collectively referred to as the "BWL") as of and for the year ended June 30, 2015 and have issued our report thereon dated as noted below:

- Board of Water and Light - City of Lansing, Michigan - report dated August 31, 2015
- Lansing Board of Water and Light Retiree Benefit Plan and Trust - report dated August 28, 2015
- Lansing Board of Water and Light Employees' Defined Contribution Pension Plan - report dated August 28, 2015
- Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan - report dated August 28, 2015

Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Board of Commissioners at the BWL.

Section II contains updated informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the BWL's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the Board of Commissioners and management of the BWL and is not intended to be and should not be used by anyone other than these specified parties.

The BWL's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Board of Commissioners
Lansing Board of Water and Light

August 31, 2015

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read 'D. Rober', with a long horizontal flourish extending to the right.

Douglas D. Rober, CPA
Partner

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter 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. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of BWL. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 14, 2015.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the BWL are described in Note 1 to the financial statements. As described in Note 16, the BWL adopted GASB No. 68 during the fiscal year ended June 30, 2015. GASB No. 68 required the measurement of the net pension asset associated with the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan to be recorded within the BWL's financial statements. In addition, the disclosures within Note 8 have changed considerably along with the related schedules in the required supplemental information.

We noted no transactions entered into by the BWL during the year for which there is a lack of authoritative guidance or consensus other than the income statement reporting related to the change in certain regulatory assets from year to year. The BWL board approved in prior reporting years regulatory assets/liabilities for the BWL's energy cost adjustment (ECA), fuel cost adjustment (FCA), and power cost adjustment (PCA) which impact the amounts billed to customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. The BWL records the year-to-year change in the ECA, FCA, and PCA within revenue. GASB 62 paragraph 480 indicates that a regulated entity should capitalize incurred costs that would otherwise be charged to expense if it is probable that "future revenue" equal to the capitalized cost will result from inclusion of that cost for rate-making purposes, and that future revenue will permit recovery of the previously incurred cost. The standard is not explicit in the schematics of the accounting for such transactions on the income statement side (whether the adjustment to the capitalized cost from one year to the next should be recorded to revenue or expense). The BWL's position, largely based on what they have indicated is industry practice, is that the adjustment should be recorded to revenue, as the additional costs over and above the amounts built into rates relate to service already provided and therefore amounts earned, even if the billing rate does not reflect the additional costs until the following period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were unbilled accounts receivable, environmental remediation, capitalized indirect costs, and the use of regulatory assets and liabilities.

Management's estimate of unbilled accounts receivable is based on the number of days unbilled and the average daily usage from the previous month's meter readings. We evaluated the key factors and assumptions used to develop unbilled accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the environmental remediation valuation is based on studies performed by the BWL's environmental engineers and third-party consultants. We evaluated the key factors and assumptions used to develop the environmental remediation valuation in determining that it is reasonable in relation to the financial statements taken as a whole.

Capitalized indirect costs are based on budgetary information estimated by finance and accounting personnel. We evaluated the key factors and assumptions used to develop the capitalized indirect costs in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's use of regulatory assets and liabilities is based on board approval for these types of transactions. We ensured all transactions for which regulatory accounting was applied had board approval in a prior year and there were no new items approved for the current year. We evaluated the key factors and assumptions used to calculate the balances related to the regulatory assets and liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were recoverable costs (see Note 6) and commitments and contingencies (see Note 9).

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as BWL's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the August 31, 2015.

To the Board of Commissioners
Lansing Board of Water and Light

August 31, 2015

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the BWL’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Informational Items

Excel Audit Schedules

During the performance of audit procedures, two adjusting journal entries were identified resulting from formula errors within Excel audit schedules. These errors were not identified during the BWL's review process. The first Excel formula error identified required a reduction to the workers' compensation IBNR liability of \$500,000. The second Excel formula error identified required an adjustment to the Retiree Benefit Plan and Trust benefit payments and contributions of \$525,000. The use of Excel audit schedules provides a risk of manual errors, which if not caught during the review process could lead to misstatement of the financial statements.

Inventory Procedures

It was noted that store inventory items with a value totaling approximately \$936,000 at June 30, 2015 was not subject to cycle counting during the fiscal year. In the absence of a year-end physical inventory count, cycle counting of all inventory items during the year is important to ensure valuation at year-end is appropriate. In addition, there were a higher number of errors noted during the June 30, 2015 audit inventory counts than in previous years. Although the value of items not subject to cycle counting or the errors noted in audit inventory counts were not material, we recommend that the BWL attempt to include all store inventory items in their cycle counting procedures. In addition, there were certain non-inventory items being stored within the warehouse without proper identification. We recommend that non-inventory items be identified as such.

New Other Post-Employment Benefits Standards

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, addresses reporting by OPEB plans whereas GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees.

Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the BWL will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The BWL is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 (the BWL's year end of June 30, 2017) whereas GASB 75 is effective one year later.

As of the most recent actuarial valuation dated February 28, 2015, the unfunded actuarially accrued liability within the VEBA plan was \$42.6 million.

New Rules Governing Management of Federal Programs

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All entities receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.

The BWL has been below the current \$500,000 threshold in recent years. However, from time to time, depending upon the level of federal spending, the BWL may still be subject to an audit requirement even at the new higher \$750,000 threshold.

2. **Cost Principles** - Effective for all federal awards received on or after December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.
3. **Administrative Requirements** - Also effective for all federal awards received on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the BWL's procurement systems, including maintaining written conflict of interest policies and disclosures.

These revisions are clearly the most significant change to occur to federal grants management in recent history. Entities receiving federal funding will need to carefully digest these changes. Plante & Moran, PLLC has been on the cutting edge of these reforms, offering our clients free webinars, implementation checklists and other tools to aid in implementation. The implementation date is already upon us and the BWL will need to ensure that the implementation of the new regulations occurs in a timely and complete manner. Plante & Moran, PLLC has many experts in this area and welcome any questions or needs you may have.



Board of Water and Light - City of Lansing, Michigan

**Financial Report
with Additional Information
June 30, 2015**

Board of Water and Light - City of Lansing, Michigan

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Independent Auditor's Report

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light - City of Lansing, Michigan (the "BWL") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the BWL's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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. Those standards require that we plan and perform the audits 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and Pension Fiduciary Funds of the BWL as of June 30, 2015 and 2014 and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
City of Lansing, Michigan

Emphasis of Matter

As discussed in Note 16 to the financial statements, in 2015, the BWL adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information as identified in the table of contents, 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 supplemental 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BWL's basic financial statements. The accompanying additional information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The additional information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

August 31, 2015

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the "BWL"). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2015.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 63 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its participation in the MISO markets, membership in the Michigan Public Power Agency, which includes the BWL's partial ownership of Detroit Edison's Belle River Plant, and through its landfill gas renewable energy purchase agreement with Granger Electric of Lansing.

The BWL owns and operates water wells, a raw water transmission system, water conditioning facilities, and an extensive water distribution system serving potable water to over 55,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving over 164 customers, and a chilled water facility and distribution piping system serving 19 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt service back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were \$65.9 and \$59.1 million in fiscal years 2015 and 2014, respectively.

The BWL generally pays the major portion of the cost of its capital improvements from internally generated funds and a lesser portion from the proceeds of revenue bonds that are issued from time to time.

Detailed financial information for the separate utilities of water, electric, steam, and chilled water can be found in the additional information section beginning on page 60.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions)

	June 30			% Change 2014 to 2015
	2015	2014	2013 *	
Assets				
Utility plant	\$ 715.0	\$ 699.3	\$ 684.1	2.2
Other assets	337.9	360.8	372.9	(6.3)
Total assets	1,052.9	1,060.1	1,057.0	(0.7)
Deferred Outflows of Resources	1.0	1.2	1.7	(16.7)
Liabilities				
Long-term liabilities	368.6	383.2	403.4	(3.8)
Other liabilities	65.2	69.5	71.4	(6.2)
Total liabilities	433.8	452.7	474.8	(4.2)
Deferred Inflows of Resources	24.9	26.1	8.1	(4.6)
Net Position				
Net investment in capital assets	354.7	342.7	342.1	3.5
Restricted for debt service	77.7	76.0	69.7	2.2
Unrestricted	162.8	163.8	163.9	(0.6)
Net position	<u>\$ 595.2</u>	<u>\$ 582.5</u>	<u>\$ 575.7</u>	2.2

* Note: GASB 68 was implemented in FY15, but was not reflected retroactively in FY13 in the table above.

Utility plant increased by \$55 million due to normal construction; however, this was offset by depreciation, thus net plant only increased by \$15.7 million.

Other assets decreased by \$22.9 million. The decrease is largely attributable to the disbursement of revenue bond funds during the year to pay for costs of capital improvements.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions) (Continued)

	Year Ended June 30			% Change 2014 to 2015
	2015	2014	2013 *	
Results of Operations				
Operating revenues	\$ 353.5	\$ 348.0	\$ 331.7	1.6
Operating expenses	309.0	310.9	295.7	(0.6)
Nonoperating expense - Net	<u>(31.9)</u>	<u>(38.4)</u>	<u>(17.3)</u>	16.9
Changes in Net Position	<u>\$ 12.6</u>	<u>\$ (1.3)</u>	<u>\$ 18.7</u>	(1,069.2)

* Note: GASB 68 was implemented in FY15, but was not reflected retroactively in FY13 in the table above.

Operating revenues increased over last year's due to utility rate increases.

Nonoperating expenses decreased by \$6.6 million from fiscal year 2014. In 2014, a loss on disposal of assets associated with the reconstruction of our Haco customer service facility was recognized, which caused the decrease in expenses in 2015.

Budget - The BWL commissioners approved a \$288.4 million operating expense budget (excluding depreciation and impairment) for fiscal year 2015. Actual expenses (excluding depreciation) were \$269.8 million or 6.4 percent less than budget. The net capital improvement budget was \$65.4 million for fiscal year 2015 and actual net capital expenditures were approximately \$58.5 million.

Financing Activities - During fiscal year 2015, there were no significant financing activities.

Board of Water and Light - City of Lansing, Michigan

Statement of Net Position

	June 30	
	2015	2014
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 52,752,941	\$ 51,773,756
Cash and cash equivalents (Notes 4 and 11)	55,925,376	51,545,956
Investments (Notes 1 and 11)	91,585,641	91,030,822
Accounts receivable - Net (Note 1)	22,014,605	23,602,383
Estimated unbilled accounts receivable (Note 1)	18,280,777	17,157,806
Inventories (Note 1)	25,860,743	23,474,266
Other	3,344,122	3,617,737
Total current assets	269,764,205	262,202,726
Other Assets		
Recoverable energy asset (Note 6)	4,652,068	2,797,695
Recoverable revenue of Central Utilities Complex (Note 6)	(7,241,153)	(4,255,372)
Recoverable environmental remediation (Note 6)	18,616,005	23,626,611
Special deposit	11,380,000	14,225,000
Net pension asset (Note 8 and 16)	8,284,230	11,188,702
Other	8,123,949	4,220,485
Total other assets	43,815,099	51,803,121
Noncurrent Restricted Assets (Investments) (Notes 4 and 11)	24,263,950	46,828,045
Utility Plant (Note 1)		
Water	296,802,952	288,627,287
Electric	804,947,799	773,262,520
Steam	67,510,134	64,685,056
Chilled water	33,622,140	32,917,461
Common facilities	87,132,519	75,026,577
Central Utilities Complex	76,079,000	76,079,000
Total	1,366,094,544	1,310,597,901
Less accumulated depreciation	665,849,130	624,749,511
Net	700,245,414	685,848,390
Construction in progress (Note 3)	14,781,967	13,439,221
Total utility plant	715,027,381	699,287,611
Total assets	1,052,870,635	1,060,121,503
Deferred Outflows of Resources -		
Bond refunding loss being amortized	1,032,273	1,228,706

Board of Water and Light - City of Lansing, Michigan

Statement of Net Position (Continued)

	June 30	
	2015	2014
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 32,695,192	\$ 32,120,138
Current portion of long-term debt (Note 5)	13,299,345	17,824,253
Accrued payroll and related taxes	2,756,033	3,725,544
Customer deposits	2,678,145	2,674,858
Unearned revenue	1,127,500	-
Accrued compensated absences (Note 1)	4,092,441	3,916,658
Accrued interest	8,547,591	9,261,217
Total current liabilities	65,196,247	69,522,668
Compensated Absences - Less current portion (Note 1)	6,916,286	7,182,984
Other Long-term Liabilities		
Workers' compensation	2,200,000	2,000,000
Environmental remediation liability (Note 9)	10,172,203	10,356,249
Other	2,314,711	2,327,615
Total other long-term liabilities	14,686,914	14,683,864
Long-term Debt - Less current portion (Note 5)	347,044,294	361,310,213
Total liabilities	433,843,741	452,699,729
Deferred Inflows of Resources		
Regulated operations - Revenue intended to cover future costs (Note 6)	22,667,354	18,944,163
Net pension asset deferrals (Notes 8 and 16)	2,201,407	7,143,206
Total deferred inflows of resources	24,868,761	26,087,369
Net Position		
Net investment in capital assets	354,683,742	342,717,240
Restricted for debt service (Note 4)	77,016,891	76,037,706
Unrestricted	163,489,773	163,808,165
Total net position	<u>\$ 595,190,406</u>	<u>\$ 582,563,111</u>

Board of Water and Light - City of Lansing, Michigan

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2015	2014
Operating Revenues (Note 1)		
Water	\$ 37,910,106	\$ 37,246,939
Electric	295,047,904	289,154,465
Steam	14,959,212	16,324,128
Chilled water	5,568,287	5,397,411
Total operating revenues	353,485,509	348,122,943
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	163,336,653	165,199,058
Maintenance	24,415,690	17,045,140
Transmission and distribution:		
Operating expenses	7,006,002	11,829,786
Maintenance	13,864,024	11,262,716
Administrative and general	61,297,460	66,583,248
Depreciation and impairment (Note 1)	39,104,343	38,997,186
Total operating expenses	309,024,172	310,917,134
Operating Income	44,461,337	37,205,809
Nonoperating Income (Expenses)		
Investment income	1,351,006	1,866,462
Other income (expense)	1,534,922	(5,974,385)
System capacity fee	9,223,075	9,222,989
Bonded debt interest expense	(14,995,574)	(15,334,915)
Amortization - Central Utilities Complex	(8,057,715)	(7,642,715)
Return on equity (Note 7)	(20,840,065)	(20,608,093)
Other interest expense	(49,691)	(41,555)
Total nonoperating expenses - Net	(31,834,042)	(38,512,212)
Net Income (Loss) (Changes in Net Position)	12,627,295	(1,306,403)
Net Position - Beginning of year - As restated (Note 16)	582,563,111	583,869,514
Net Position - End of year	\$ 595,190,406	\$ 582,563,111

Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows

	Year Ended June 30	
	2015	2014
Cash Flows from Operating Activities		
Cash from customers:		
Water	\$ 38,932,520	\$ 37,669,771
Electric	293,138,111	296,772,164
Steam	15,711,107	14,041,374
Chilled water	5,425,898	4,960,008
Total cash from customers	353,207,636	353,443,317
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(140,537,274)	(134,722,274)
Other suppliers	(69,814,422)	(85,526,501)
Total cash paid to suppliers	(210,351,696)	(220,248,775)
Cash paid to employees	(63,947,564)	(51,598,018)
Return on equity (Note 7)	(20,840,065)	(20,608,093)
Cash from customer deposits	3,287	301,524
Interest on customer deposits	(49,691)	(41,555)
Net cash provided by operating activities	58,021,907	61,248,400
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	-	208,084
Planned, bonded, and annual construction	(59,916,047)	(59,277,580)
Principal payments on debt	(18,594,394)	(18,031,042)
System capacity fees	9,223,075	9,222,989
Interest on debt	(15,709,200)	(15,380,966)
Net cash used in capital and related financing activities	(84,996,566)	(83,258,515)
Cash Flows from Noncapital Financing Activities		
Proceeds from the sale of emissions allowances	36	25,826
Proceeds from the Belle River Project and other	8,972,944	6,676,122
Net cash provided by noncapital financing activities	8,972,980	6,701,948
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	160,938,876	160,116,297
Interest received	2,003,345	3,696,174
Purchase of investments	(139,581,937)	(142,564,173)
Net cash provided by investing activities	23,360,284	21,248,298
Net Increase in Cash and Cash Equivalents	5,358,605	5,940,131
Cash and Cash Equivalents - Beginning of year	103,319,712	97,379,581
Cash and Cash Equivalents - End of year	<u>\$ 108,678,317</u>	<u>\$ 103,319,712</u>

Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2015	2014
Balance Sheet Classifications		
Restricted cash and cash equivalents	\$ 52,752,941	\$ 51,773,756
Cash and cash equivalents	55,925,376	51,545,956
Cash and Cash Equivalents - End of year	\$ 108,678,317	\$ 103,319,712
Reconciliation of Operating Income to Net Cash from Operating Activities:		
	Year Ended June 30	
	2015	2014
Operating income	\$ 44,461,337	\$ 37,205,809
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(20,840,065)	(20,608,093)
Depreciation and impairment	39,104,343	38,997,186
Sewerage collection fees	1,088,442	977,373
Interest on customer deposits	(49,691)	(41,555)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	1,611,029	(276,896)
Unbilled accounts receivable (Note 1)	(1,122,971)	(1,062,563)
Inventories	(2,386,479)	(728,273)
Customer deposits	3,287	301,524
Special deposit	2,845,000	-
Net pension asset	2,904,472	4,098,930
Other	(5,484,222)	5,511,475
Decrease in liabilities and deferred inflows of resources:		
Accounts payable and other accrued expenses	(218,674)	(2,771,029)
Net pension asset deferrals	(4,941,799)	-
Other	1,047,898	(355,488)
Total adjustments	13,560,570	24,042,591
Net cash provided by operating activities	\$ 58,021,907	\$ 61,248,400

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Net Position

	June 30	
	2015	2014
Assets		
Receivable - Investment interest receivable	\$ 305,573	\$ 331,781
Investments at fair value:		
Money market collective trust fund	8,564,513	8,904,375
U.S. government obligations	22,121,544	23,639,025
Corporate bonds and notes	32,582,122	32,558,775
Mutual funds	138,830,601	133,962,556
Stable value	31,844,948	33,607,203
Equities	163,468,806	165,310,705
Current liability	-	(13,000)
Self-directed brokerage account	1,376,730	1,147,041
Participant notes receivable	3,888,351	4,082,709
	<u>402,677,615</u>	<u>403,199,389</u>
Total investments		
Net Position - Held in trust for pension and other employee benefits	<u>\$ 402,983,188</u>	<u>\$ 403,531,170</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Changes in Net Position

	Year Ended June 30	
	2015	2014
Increases		
Investment income:		
Net appreciation in fair value of investments	\$ 886,489	\$ 53,252,318
Interest and dividend income	11,816,649	10,112,195
Net investment income	12,703,138	63,364,513
Employer contributions	15,219,154	19,539,305
Participant rollover contributions	1,345,481	2,395,693
Other	307,138	249,450
Total increases	29,574,911	79,423,734
Decreases		
Benefits paid to participants	28,168,455	26,398,589
Loan defaults	125,254	120,280
Participants' note and administrative fees	1,829,184	1,742,851
Total decreases	30,122,893	27,315,465
Net (Decrease) Increase in Net Position Held in Trust	(547,982)	52,108,269
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	403,531,170	351,422,901
End of year	\$ 402,983,188	\$ 403,531,170

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Board of Water and Light (the "BWL"):

Reporting Entity - The BWL, a related organization of the City of Lansing, Michigan (the "City"), is an administrative board established by the City Charter. The City Charter grants the BWL full and exclusive management of the electric, water, steam, and chilled water services of the City. The commissioners of the governing board are appointed by the mayor with approval of the City Council. The BWL provides water, steam, chilled water, and electric services to the City and surrounding townships. The governing board (Board of Commissioners) has the exclusive authority to set rates for the services provided. The financial statements include the financial activities of the electric, water, steam, and chilled water operations of the BWL. The financial statements also include the financial activities of the BWL Pension Trust Funds. The BWL is exempt from taxes on income because it is a municipal entity.

Fund Accounting - The BWL accounts for its activities in two different fund types, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures that specific revenues were used for. The funds are aggregated into two fund types:

Proprietary fund includes the enterprise fund (which provides goods or services to users in exchange for charges or fees).

Fiduciary funds

- The Defined Contribution Plan and Defined Benefit Plan, which accumulate resources for benefit payments to retirees
- The VEBA, which accumulates resources for future retiree health care payments to retirees

Basis of Accounting - Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In addition, the utilities meet the criteria and, accordingly, on July 1, 2012, the BWL adopted the accounting and reporting requirements of GASB 62, paragraphs 476-500.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Significant Accounting Policies (Continued)

The BWL follows the accounting and reporting requirements of GASB 62, paragraphs 476-500, which require that the effects of the ratemaking process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, the BWL records various regulatory assets and liabilities to reflect the regulator's actions (see Note 6). Management believes that the BWL meets the criteria for continued application of GASB 62 paragraphs 476-500, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

System of Accounts - The BWL's accounts are maintained substantially in accordance with the Uniform Systems of Accounts of the Federal Energy Regulatory Commission for its electric and steam systems and in accordance with the Uniform Systems of Accounts of the National Association of Regulatory Utility Commissioners for the water and chilled water systems. The chart of accounts dictates how the BWL classifies revenue and expense items in the statement of revenues, expenses, and changes in net assets as operating and nonoperating.

Operating Classification - Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Report Presentation - This report includes the fund-based statements of the BWL. In accordance with government accounting principles, a government-wide presentation with program and general revenues is not applicable to special purpose governments engaged only in business-type activities.

Specific Balances and Transactions

Cash and Cash Equivalents - The BWL considers demand deposits and current restricted funds, which consist of cash and highly liquid investments with an original maturity of 90 days or less, as cash and cash equivalents for financial statement purposes.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note I - Significant Accounting Policies (Continued)

Investments - The BWL has established special purpose funds designated to meet anticipated operating requirements. In addition, BWL management has established a future construction fund designated to meet future construction requirements. These funds consist principally of commercial paper and United States government securities and are segregated as follows:

	Carrying Value	
	2015	2014
Designated purpose:		
Coal inventory fluctuation	\$ 4,598,714	\$ 4,529,062
Litigation, environmental, and uninsured losses	18,589,552	18,306,887
Future water facilities	<u>3,745,990</u>	<u>3,688,651</u>
Subtotal	26,934,256	26,524,600
Special purpose - Future construction	<u>64,651,385</u>	<u>64,506,222</u>
Total	<u>\$ 91,585,641</u>	<u>\$ 91,030,822</u>

Accounts Receivable - Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2015 and 2014 are as follows:

	2015	2014
Customer receivables	\$ 18,491,745	\$ 20,102,775
Sewerage collections	2,159,867	2,545,497
Combined sewer overflow - City of Lansing	(944,583)	(944,583)
Miscellaneous	4,307,576	3,898,694
Less allowance for doubtful accounts	<u>(2,000,000)</u>	<u>(2,000,000)</u>
Net	<u>\$ 22,014,605</u>	<u>\$ 23,602,383</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note I - Significant Accounting Policies (Continued)

Special Deposit - The BWL contracted with Consumer's Energy to install a new gas pipeline in 2011 and funded construction of this pipeline and incurred \$15,900,000 at that time. The BWL will subsequently be reimbursed for all but \$1,675,000 of those costs provided minimum consumption requirements are met over the subsequent five-year period beginning in 2015. During the year ended June 30, 2015, the BWL received the first refund in the amount of \$2,845,000 after meeting minimum consumption requirements. The remaining \$11,380,000 has been recorded as a long-term other asset which is anticipated to be refunded over the next four years based on current projections indicating that actual consumption will be much larger than minimum requirements.

Inventories - Inventories are stated at weighted average cost and consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Coal	\$ 11,275,408	\$ 8,234,376
Gas	936,671	1,162,717
Materials and supplies	<u>13,648,664</u>	<u>14,077,173</u>
Total	<u>\$ 25,860,743</u>	<u>\$ 23,474,266</u>

Utility Plant - The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred.

Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with GASB 62 paragraphs 476-500. The resulting provisions for depreciation in 2015 and 2014, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant:	Life (Years)	Average Rate (Percent)	
		<u>2015</u>	<u>2014</u>
Water	4-100	1.8	1.9
Electric	4-50	3.4	3.5
Steam	5-50	3.5	3.3
Chilled water	5-50	3.4	3.5
Common facilities	4-50	4.1	5.7
Central Utilities Complex	15	6.7	6.7

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Significant Accounting Policies (Continued)

When units of property are retired, their costs are removed from the utility plant and charged to accumulated depreciation.

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2015 and 2014:

Capital Asset Activity for Year Ended June 30, 2015					
	Capital Assets				Capital Assets
	FY Start	Transfers	Acquisition	Retirement	FY End
Water	\$ 288,627,287	\$ 25,014	\$ 9,096,693	\$ (946,042)	\$ 296,802,952
Electric	773,262,520	51,658	34,925,022	(3,291,401)	804,947,799
Steam	64,685,056	-	3,136,196	(311,118)	67,510,134
Chilled	32,917,461	-	704,679	-	33,622,140
Common	75,026,577	(76,672)	12,628,678	(446,064)	87,132,519
CUC	76,079,000	-	-	-	76,079,000
Total	\$ 1,310,597,901	\$ -	\$ 60,491,268	\$ (4,994,625)	\$ 1,366,094,544

Accumulated Depreciation for Year Ended June 30, 2015					
	Accum. Deprc.	Depreciation	Deprc. / Amort.	Depreciation	Accum. Deprc.
	FY Start	Transfer	and Impairment for Year	Retirement	FY End
Water	\$ (84,984,612)	\$ (25,014)	\$ (5,147,689)	\$ 522,729	\$ (89,634,586)
Electric	(420,474,747)	3,099	(27,158,634)	2,254,187	(445,376,095)
Steam	(12,551,842)	-	(2,313,839)	88,162	(14,777,519)
Chilled	(7,887,640)	-	(1,140,043)	-	(9,027,683)
Common	(37,987,471)	21,915	(3,344,139)	211,580	(41,098,115)
CUC	(60,863,199)	-	(5,071,933)	-	(65,935,132)
Total	\$ (624,749,511)	\$ -	\$ (44,176,277)	\$ 3,076,658	\$ (665,849,130)

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note I - Significant Accounting Policies (Continued)

Capital Asset Activity for Year Ended June 30, 2014

	Capital Assets				Capital Assets
	FY Start	Transfers	Acquisition	Retirement	FY End
Water	\$ 263,328,526	\$ (1,348)	\$ 27,554,400	\$ (2,254,291)	\$ 288,627,287
Electric	758,023,493	(6,830,315)	27,644,816	(5,575,474)	773,262,520
Steam	61,507,777	(1,653,867)	5,302,400	(471,254)	64,685,056
Chilled	32,798,019	-	119,442	-	32,917,461
Common	70,715,557	8,485,530	4,784,103	(8,958,613)	75,026,577
CUC	76,079,000	-	-	-	76,079,000
Total	\$ 1,262,452,372	\$ -	\$ 65,405,161	\$ (17,259,632)	\$ 1,310,597,901

Accumulated Depreciation for Year Ended June 30, 2014

	Accum. Deprc.	Depreciation	Deprc. / Amort.	Depreciation	Accum. Deprc.
	FY Start	Transfer	for Year	Retirement	FY End
Water	\$ (81,568,989)	\$ (460)	\$ (5,154,328)	\$ 1,739,165	\$ (84,984,612)
Electric	(398,329,070)	(1,599)	(26,428,251)	4,284,173	(420,474,747)
Steam	(10,489,756)	14,807	(2,092,601)	15,708	(12,551,842)
Chilled	(6,751,047)	-	(1,136,593)	-	(7,887,640)
Common	(38,418,953)	(12,748)	(4,185,413)	4,629,643	(37,987,471)
CUC	(55,791,266)	-	(5,071,933)	-	(60,863,199)
Total	\$ (591,349,081)	\$ -	\$ (44,069,119)	\$ 10,668,689	\$ (624,749,511)

Accrued Compensated Absences - The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$11,008,727 and \$11,099,642 as of June 30, 2015 and 2014, respectively.

Capital Contributions - Capital contributions represent nonrefundable amounts received for the purpose of construction for the utility plant. These contributions are from third parties, including amounts from customers, grant programs, and insurance proceeds from damage. Electric, water, and steam contributions are credited against the related assets or recorded as a separate regulatory liability and will offset the depreciation of the related assets over the estimated useful lives. This treatment is consistent with the BWL's ratemaking policy and is thus permitted under GASB 62 paragraphs 476-500.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note I - Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The BWL has one item that qualifies for reporting in this category. The deferred outflows of resources relates to deferred losses on refunding.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The BWL has the following items that qualify for reporting in this category: the deferred inflows of resources related to costs that have been incurred and will be billed to customers in the future related to the renewable energy plan and energy optimization, chiller plant, and Wise Road items described in Note 6, and deferred inflows of resources related to the net pension asset described in Note 8.

Net Position - Equity is classified as net position and displayed in three components:

- **Net Investment in Capital Assets** (net of related debt) - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** - Consists of net position with constraints placed on their use by revenue bond resolution.
- **Unrestricted** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Net Position Flow Assumption - Sometimes the BWL will fund outlays for a particular purpose from both restricted (e.g., restricted bond) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the BWL's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note I - Significant Accounting Policies (Continued)

Unbilled Accounts Receivable and Revenue - Unbilled accounts receivable at June 30, 2015 and 2014 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to June 30 will be recognized in the current period.

Interutility Transactions - The water, electric, steam, and chilled water operations of the BWL bill each other for services provided and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated \$7,956,814 and \$9,037,781 in 2015 and 2014, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

Emissions Allowance - The Environmental Protection Agency has granted emission allowances to the BWL related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The BWL estimates the allowances needed for future years. As appropriate, the BWL may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type are accounted for separately and are not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

The BWL recognized a gain of \$36 and \$25,826 as of June 30, 2015 and 2014, respectively, from the sale of allowances and has recorded an intangible asset of \$0 as of June 30, 2015 and 2014 for purchased allowances related to future periods.

Significant Customers - The BWL has one customer which accounts for approximately 8 percent and 9 percent of the BWL's total revenue for the years ended June 30, 2015 and 2014, respectively.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Significant Accounting Policies (Continued)

Reclassifications - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. See Note 16 for further information.

Note 2 - Rate Matters

Rates charged to customers are established solely by the governing board. The BWL has agreed to set rates sufficient to meet certain requirements of the bond resolutions for the outstanding revenue bonds.

Note 3 - Construction in Progress

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete various projects is approximately \$75,074,000 and \$52,122,000 at June 30, 2015 and 2014, respectively, including commitments on existing construction contracts approximating \$9,173,000 and \$19,257,000 at June 30, 2015 and 2014, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets. There are additional commitments on projects in the process of being constructed that are not included above. Refer to Note 9 for these commitments.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 4 - Restricted Assets

Restricted assets are required under the 2005A, 2008A, 2011A, 2012A, and 2013A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, commercial paper, and United States government securities, are segregated into the following funds:

	Required at June 30, 2015	Carrying Value	
		2015	2014
Current:			
Operations and Maintenance Fund	\$ 33,195,350	\$ 88,301,618	\$ 80,126,021
Bond and Interest Redemption Fund	19,557,591	19,689,041	23,193,691
Total current	52,752,941	107,990,659	103,319,712
Noncurrent:			
2011A Construction Fund	-	-	22,564,095
Bond Reserve Fund	24,263,950	24,951,608	24,263,950
Total noncurrent	24,263,950	24,951,608	46,828,045
Total	\$ 77,016,891	\$ 132,942,267	\$ 150,147,757

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the year ended June 30, 2015.

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** - By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** - Restricted for payment of the current portion of bond principal and interest on the 2005A, 2008A, 2009A, 2011A, 2012A, and 2013A Revenue Bonds.
- **2011A Construction Fund** - Restricted for payment of costs of the bonded projects and costs of issuance of the bonds.
- **Bond Reserve Fund** - Shall include sufficient funds to cover the maximum annual principal and interest requirements of the 2005A, 2008A, 2011A, 2012A, and 2013A Revenue Bonds. The Nonarbitrage and Tax Compliance Certification stipulates that the amount in the fund shall be valued at amortized cost to meet this requirement. As of June 30, 2015, the cost basis in the fund was \$25,302,514.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 5 - Long-term Debt

Long-term debt as of June 30 consists of the following:

	2015	2014
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2013A, due in annual principal installments beginning July 1, 2013 through July 1, 2026, plus interest at rates ranging from 2.00% to 5.00%	\$ 20,830,000	\$ 21,085,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2012A, due in annual principal installments beginning July 1, 2013 through July 1, 2018, plus interest at rates ranging from 2.00% to 5.00%	16,355,000	16,960,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2011A, due in annual principal installments beginning July 1, 2015 through July 1, 2041, plus interest at rates ranging from 3.00% to 5.50%	250,000,000	250,000,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2009A, due in annual principal installments due serially through July 1, 2016, plus interest at a rate of 5.34%	11,215,000	18,985,000
Water Supply Utility System Revenue Bonds, Series 2008A, due serially beginning July 1, 2012 and continuing through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%	39,985,000	39,990,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2005A, due serially beginning July 1, 2011 and continuing through July 1, 2014, plus interest at rates ranging from 4.00% to 5.00%	-	5,520,000

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 5 - Long-term Debt (Continued)

	<u>2015</u>	<u>2014</u>
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%	\$ 9,554,048	\$ 10,173,301
Township contract water service obligation with interest due semiannually at 6.00% and portions of principal due annually, with final payment in May 2015	-	40,000
Granger III Corporation for ash hauling services due in monthly installments ranging from \$150,000 to \$250,000	1,650,712	4,650,712
City of Lansing agreement for the enhancement of the flood warning system, \$10,000 annually with final payment in 2016	<u>10,000</u>	<u>20,000</u>
Total	349,599,760	367,424,013
Less current portion	(13,299,345)	(17,824,253)
Plus current portion of premium on bonds	966,576	966,576
Plus unamortized premium	<u>9,777,303</u>	<u>10,743,877</u>
Total long-term portion	<u>\$ 347,044,294</u>	<u>\$ 361,310,213</u>

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be \$425,756,849 and \$423,049,941 at June 30, 2015 and 2014, respectively.

The unamortized premium and deferral on refunded bonds is being amortized over the life of the bonds, using the effective-interest method.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 5 - Long-term Debt (Continued)

Aggregate principal and interest payments applicable to long-term debt are as follows:

	Principal	Interest	Total
2016	\$ 13,299,345	\$ 16,875,993	\$ 30,175,338
2017	11,523,300	16,224,949	27,748,249
2018	8,860,005	15,765,701	24,625,706
2019	9,244,935	15,491,004	24,735,939
2020	7,712,842	15,334,272	23,047,114
2021-2025	43,951,859	71,043,958	114,995,817
2026-2030	55,673,602	59,709,787	115,383,389
2031-2035	69,163,872	44,957,340	114,121,212
2036-2040	88,030,000	26,085,125	114,115,125
2041-2042	42,140,000	3,507,625	45,647,625
Total	<u>\$ 349,599,760</u>	<u>\$ 284,995,754</u>	<u>\$ 634,595,514</u>

The 2008A, 2011A, 2012A, and 2013A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2015, the balance of this reserve account was \$24,951,608 (see Note 4). The 2009A bonds were a private placement issue and have no reserve requirement.

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL. Except for the Series 2009A Subordinate Lien Revenue Refunding Bond, all bonds were issued on a parity basis and are payable solely from the net revenue of the combined water, electric, chilled water, and steam operations of the BWL.

The 2013A Bond is payable in annual installments in the years 2015 to 2027, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds, or portions of the bonds in multiples of \$5,000 maturing in the years 2025 and thereafter shall be subject to redemption prior to maturity at the option of the BWL in any order of maturity as the BWL may determine and within any maturity by lot, on any date on after July 1, 2023 at the redemption price of par plus accrued interest to the date fixed for redemption.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 5 - Long-term Debt (Continued)

The 2012A Bond is payable in annual installments in the years 2013 to 2018, inclusive, and shall not be subject to optional redemption prior to maturity.

The Series 2011A Bond is payable in annual installments in the years 2015 to 2022, inclusive, and shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after July 1, 2022 shall be subject to redemption at the option of the BWL as a whole or in part at any time and by lot within a maturity at par plus interest accrued to the redemption date.

The Series 2009A Bond is payable in annual installments in the years 2010 to 2016, inclusive, and shall not be subject to optional redemption prior to maturity.

The Series 2008A Bonds maturing in the years 2012 to 2028, inclusive, shall not be subject to optional redemption prior to maturity. The bonds, or portions of bonds in multiples of \$5,000 maturing in the years 2019 to 2032, inclusive, shall be subject to redemption at the option of the BWL in such order of maturity as the BWL shall determine and within a single maturity by lot on any date on or after July 1, 2018, at par plus accrued interest to the date fixed for redemption.

The BWL may redeem certain outstanding Water Supply and Electric Utility System Revenue Bonds prior to maturity. The Series 2005A Bonds were redeemed at maturity during the year ended June 30, 2015.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 5 - Long-term Debt (Continued)

The long-term debt activity for the year ended June 30, 2015 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 364,250,463	\$ 14,884,003	\$ 379,134,466
Additions	-	-	-
Reductions	<u>(15,121,594)</u>	<u>(3,669,233)</u>	<u>(18,790,827)</u>
Ending balance	<u>\$ 349,128,869</u>	<u>\$ 11,214,770</u>	<u>\$ 360,343,639</u>
Due within one year	\$ 11,010,000	\$ 2,289,345	\$ 13,299,345

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds total \$634,595,514. During the current year, net revenues of the BWL were \$66,776,903 compared to the annual debt requirements of \$29,150,574.

Note 6 - Costs/Credits Recoverable in Future Years

Central Utilities Complex

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under the regulatory basis of accounting as per GASB 62. The BWL has recorded recoverable (revenue) amortization of \$(7,241,153) and \$(4,255,372) at June 30, 2015 and 2014, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC will be reimbursed through payments to be received from this customer through 2017. The recoverable (revenue) amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end.

Environmental Remediation

The GASB 49 environmental remediation liability related to a landfill site operated by the BWL was approved for regulated entity accounting under GASB 62 during the year ended June 30, 2004. As of June 30, 2015 and 2014, \$20,848,000 in total costs has been recoverable as a regulatory asset.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 6 - Costs/Credits Recoverable in Future Years (Continued)

As of June 30, 2015 and 2014, the amounts remaining to be recovered in rates were \$37,756 and \$1,470,035, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

During the year ended June 30, 2006, the GASB 49 environmental remediation liability related to a second landfill was approved for regulated entity accounting under GASB 62. The balance of the regulatory asset at June 30, 2015 and 2014 was \$14,176,684 and \$17,793,606 respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009, regulatory accounting as per GASB 62 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2015 and 2014 for additional sites was \$4,401,565 and \$4,362,970, respectively.

Recoverable Cost Adjustments

During the year ended June 30, 2005, the Board of Commissioners approved the use of regulatory accounting as per GASB 62 in accounting for the BWL's energy cost adjustment (ECA), power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electricity, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in recoverable assets of \$4,652,068 and \$2,797,695 at June 30, 2015 and 2014, respectively. This amount represents costs to be billed to customers in future years because actual costs of providing utilities were higher than the costs incorporated into the BWL's rates.

Renewable Energy Plan (REP) and Energy Optimization (EO)

During the year ended June 30, 2010, the Board of Commissioners approved the implementation of regulatory accounting as per GASB 62 to account for Public Act 295 of 2008 (PA. 295). PA. 295 set forth requirements for all Michigan utilities to meet the new renewable energy standards and undertake energy optimization programs. As a municipally owned electric utility, the BWL was required to file a proposed energy plan with the Michigan Public Service Commission (MPSC) and this plan was approved on July 1, 2009. These changes will affect the amount to be billed to electric customers. This resulted in deferred inflow of resources of \$6,953,049 and \$6,421,464 as of June 30, 2015 and 2014, respectively.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 6 - Costs/Credits Recoverable in Future Years (Continued)

Chiller Plant

During the year ended June 30, 2010, the BWL chose to use regulatory accounting as per GASB 62 to recognize the contribution in aid of construction (CIAC) for the development of a new chilled water plant. This resulted in recoverable inflow of resources of \$2,202,716 and \$2,422,987 as of June 30, 2015 and 2014, respectively. The BWL will recognize this as revenue monthly over the life of the new chilled water plant to offset depreciation expense.

Wise Road

During the year ended June 30, 2012, the BWL chose to use regulatory accounting as per GASB 62 to recognize the insurance proceeds for the damaged equipment at the Wise Road Water Conditioning Plant (see Note 14). This resulted in recoverable inflow of resources of \$13,511,589 and \$10,099,712 as of June 30, 2015 and 2014. The BWL will recognize this as revenue monthly over the life of the new equipment to offset depreciation expense.

Note 7 - Transactions with the City of Lansing, Michigan

Operations - The BWL recognized revenue of \$9,834,276 and \$8,075,705 in 2015 and 2014, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$964,302 and \$924,809 in 2015 and 2014, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$1,087,668 and \$968,545 in 2015 and 2014, respectively, included in other income.

Payment in Lieu of Taxes - Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002, the formula to calculate the amount owed to the City for payment in lieu of taxes will also include wholesale revenue generated from the BWL's electric, water, steam, and chilled water utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City \$20,840,065 in 2015 and \$20,608,093 in 2014 of operational cash flow in excess of debt service requirements.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans

The BWL has three retirement plans. The BWL administers a tax-qualified, single-employer, noncontributory, defined benefit public employee retirement pension plan (the "Defined Benefit Plan"), and the BWL has a tax-qualified, single-employer, noncontributory, defined contribution public employee retirement pension plan (the "Defined Contribution Plan"). The BWL also has a tax-qualified, single-employer, defined benefit plan to administer and fund retiree healthcare benefits (the "Retiree Benefit Plan and Trust").

Defined Benefit Plan

Plan Description - The BWL Board of Commissioners administers the Defined Benefit Plan - a noncontributory single-employer defined benefit pension plan for employees of the BWL. The benefit terms were established by the BWL and may be amended by future BWL actions.

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Management of the Plan is vested in the BWL, which consists of eight members appointed by the mayor of the City of Lansing, Michigan.

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2015 and 2014.

Employees Covered by Benefit Terms - At February 28, 2015 and 2014 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	2015	2014
Inactive plan members or beneficiaries currently receiving benefits	398	413
Inactive plan members entitled to but not yet receiving benefits	8	9
Active plan members	14	17
Total	<u>420</u>	<u>439</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

The Defined Benefit Plan, by resolution of the board of commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan that were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan. As a result of this action, effective December 1, 1997, the board of commissioners transferred \$75,116,470 to the newly established defined contribution plan, reflecting the plan participants' accumulated benefits as of said date.

Benefits Provided - The Defined Benefit Plan provides retirement, early retirement, disability, termination, and death benefits. The Plan provides for an annual benefit upon normal retirement age equal to the product of the total number of years of credited service multiplied by a percentage equal to 1.80 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

Payments will either be non-increasing or increase only as follows: (a) By an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics; (b) To the extent of the reduction in the amount of the employee's payments to provide for a survivor benefit upon death, but only if the beneficiary whose life was being used to determine the distribution period described in subsection 8 dies or is no longer the employee's beneficiary pursuant to a qualified domestic relations order within the meaning of Internal Revenue Code Section 414(p); (c) To provide cash refunds of employee contributions upon the employee's death; or (d) To pay increased benefits that result from a plan amendment.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2014 and 2015. Plan documents do not require participant contributions.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the BWL's adopted asset allocation policy as of June 30, 2015 and 2014:

Asset Class	Target Allocation
Fixed income	30.80%
Domestic equity	55.00%
International equity	14.20%

Net Pension Asset - The components of the net pension asset of the BWL at June 30, 2015 and 2014 were as follows (in thousands):

	2015	2014
Total pension liability	\$ 65,395	\$ 69,341
Plan fiduciary net position	<u>73,679</u>	<u>80,530</u>
BWL's net pension asset	<u>\$ (8,284)</u>	<u>\$ (11,189)</u>
Plan fiduciary net position, as a percentage of the total pension liability	112.67%	116.14%

The BWL has chosen to use June 30, 2015 as its measurement date for fiscal year 2015. The June 30, 2015 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation as of February 28, 2015, which used update procedures to roll forward the estimated liability to June 30, 2015.

The BWL has chosen to use June 30, 2014 as its measurement date for fiscal year 2014. The June 30, 2014 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2014. The June 30, 2014 total pension liability was determined by an actuarial valuation as of February 28, 2014, which used update procedures to roll forward the estimated liability to June 30, 2014.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Changes in the net pension asset during the measurement years were as follows (in thousands):

Changes in Net Pension Asset	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance at June 30, 2013	\$ 67,280	\$ 75,424	\$ (8,144)
Changes for the year:			
Service cost	349	-	349
Interest	4,751	-	4,751
Differences between expected and actual experience	964	-	964
Changes in assumptions	4,538	-	4,538
Net investment income	-	14,243	(14,243)
Benefit payments, including refunds	(8,541)	(8,541)	-
Administrative expenses	-	(596)	596
Net changes	<u>2,061</u>	<u>5,106</u>	<u>(3,045)</u>
Balance at June 30, 2014	<u>\$ 69,341</u>	<u>\$ 80,530</u>	<u>\$ (11,189)</u>
Changes for the year:			
Service cost	274	-	274
Interest	4,919	-	4,919
Differences between expected and actual experience	(1,093)	-	(1,093)
Net investment income	-	1,771	(1,771)
Benefit payments, including refunds	(8,046)	(8,046)	-
Administrative expenses	-	(576)	576
Net changes	<u>(3,946)</u>	<u>(6,851)</u>	<u>2,905</u>
Balance at June 30, 2015	<u>\$ 65,395</u>	<u>\$ 73,679</u>	<u>\$ (8,284)</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2015, the BWL recognized a pension expense of (\$2,037,327). At June 30, 2015, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (2,201,407)

For the year ended June 30, 2014, the BWL recognized pension expense of \$4,098,930. At June 30, 2014, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (7,143,206)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	
<u> </u>	
2016	\$ 996,802
2017	996,802
2018	996,802
2019	(788,999)

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Actuarial Assumptions - The total pension liability in the June 30, 2015 and June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	6.44%-10.26%
Investment rate of return	7.50%

Mortality rates were based on the Healthy and Disabled, RP-2014 Mortality Table with MP-2014 Improvement scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 14 active participants in fiscal year 2015 and 17 active participants in fiscal year 2014, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows

Based on those assumptions, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the Defined Benefit Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

The long-term expected rate of return on Defined Benefit Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2015 and 2014 for each major asset class included in the Defined Benefit Plan's target asset allocation, as disclosed in the Defined Benefit Plan's financial statements, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Fixed income	2.00%
Domestic equity	6.40%
International equity	6.80%

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following presents the net pension asset of the BWL at June 30, 2015, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension asset of the BWL (in thousands)	\$ (3,053)	\$ (8,284)	\$ (13,128)

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

The following presents the net pension asset of the BWL at June 30, 2014, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate (7.50 %)	1% Increase (8.50%)
Net pension asset of the BWL (in thousands)	\$ (5,315)	\$ (11,189)	\$ (16,603)

Defined Benefit Plan Fiduciary Net Position - Detailed information about the Defined Benefit Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension asset and deferred inflows of resources related to pension and pension expense, information about the Defined Benefit Plan's fiduciary net position and addition to/deduction from fiduciary net position has been determined on the same basis of accounting as they are reported by the Defined Benefit Plan. The Defined Benefit Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Defined Contribution Plan

The Defined Contribution Plan was established by the BWL in 1997 under Section 5-203 of the City Charter. The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997.

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Contribution Plan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees. No participant contributions are required.

During the years ended June 30, 2015 and 2014, the BWL contributed \$5,548,360 and \$5,467,824, respectively. The BWL's contributions are recognized in the period that the contributions are due.

Basis of Accounting - The Defined Contribution Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*.

Valuation of Investments and Income Recognition - The Defined Contribution Plan investments are stated at market value based on closing sales prices reported on recognized securities exchanges on the last business day of the year, or, for listed securities having no sales reported and for unlisted securities, upon the last reported bid prices on that date. The mutual funds are valued at quoted market prices, which represent the net asset values of shares held by the Defined Contribution Plan at year end.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded on the ex-dividend date.

Regulatory Status - The Defined Contribution Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Retiree Benefit Plan and Trust

The Retiree Benefit Plan and Trust (the "Plan") is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 725 participants eligible to receive benefits at June 30, 2015 and 698 participants eligible at June 30, 2014.

In October 1999, the BWL formed a Voluntary Employee Benefit Administration (VEBA) trust for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years. During the years ended June 30, 2015 and 2014, the cost to BWL of maintaining the Retiree Benefit Plan was \$9,670,794 and \$9,266,529, of which respectively, was incurred as direct costs of benefits.

The Retiree Benefit Plan and Trust of the Board of Water and Light - City of Lansing, Michigan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Basis of Accounting - The plan statements are prepared using the accrual basis of accounting.

Investment Valuation and Income Recognition - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Purchases and sales of investments are recorded on a trade-date basis. Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Funding Policy - The BWL adopted a process for funding the retiree benefits using both a VEBA trust and, to the extent permitted by law, excess pension assets in the Defined Benefit Pension Plan. Additional contributions to the VEBA trust from BWL operating funds to supplement Section 420 transfers will not exceed the recommended annual contribution amount required to cover current service of active participants and amortize the unfunded accrued liability over 30 years. The required contribution is based on a projected pay-as-you-go financing requirement with an additional amount to prefund benefits. No participant contributions are required.

The Plan's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Actuarial Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used range from 5.0 to 9.0 percent for the years ended June 30, 2015 and 2014.

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 15,744	\$ 15,854	101%	\$ (150)
6/30/2013	13,994	14,045	100%	(201)
6/30/2014	9,202	9,268	101%	(267)
6/30/2015	5,765	9,671	168%	(4,173)

Funded Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected healthcare trend rates ranging from 5.0 percent to 9.0 percent, and (c) amortization method level dollar over a 30-year period.

Funding status and funding progress trend information is as follows (in thousands):

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
2/28/2012	\$ 110,029	\$245,418	\$ 135,389	44.83%
2/28/2013	123,195	207,864	84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,565	200,196	42,631	78.71%

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Retirement Plans (Continued)

Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, which is administered by a trustee, the ICMA Retirement Corporation. The BWL makes contributions of \$1,000 annually for the employees as of January 1 of each year, during the month of January. The BWL also will match employee contributions at one dollar for every one dollar up to \$1,250 in a calendar year.

Note 9 - Commitments and Contingencies

At June 30, 2015 and 2014, the BWL has two letters of credit in the amounts of \$1,000,000 and \$817,220 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL is currently in the process of applying for approval from the State of Michigan to remediate the sites. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of \$10,128,442 and \$10,312,492 for the years ended June 30, 2015 and 2014, respectively. Certain remediation activities have commenced and are in progress. The landfill sites are no longer receiving waste products. Landfill closure and postclosure requirements are associated with the Michigan Department of Environmental Quality. Annual postclosure costs of these landfill sites are not expected to exceed \$380,000 annually and are included in the liability above. Estimates will be revised as approvals are received from the State. In accordance with the regulatory basis of accounting as per GASB 62 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6).

The BWL previously announced a program to upgrade existing lead pipes throughout the BWL service area. The program is scheduled to be complete in two years at an estimated remaining cost of \$11,367,000. There is no legal obligation to replace the pipes, therefore no liability has been recorded.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 9 - Commitments and Contingencies (Continued)

The BWL is subject to various laws and regulations with respect to environmental matters such as air and water quality, soil contamination, solid waste disposal, handling of hazardous materials, and other similar matters. Compliance with these various laws and regulations could result in substantial expenditures. The BWL has established a Designated Purpose Fund (see Note 1), of which one of the purposes of the fund is to meet extraordinary expenditures resulting from responsibilities under environmental laws and regulations. Management believes that all known or expected responsibilities to these various laws and regulations by the BWL will be sufficiently covered by the Designated Purpose Fund and the environmental remediation liability.

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2015 and 2014 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling \$11,841,667 through December 31, 2017. In addition, the BWL has entered into contracts for the rail services related to shipping the coal. Commitments for future rail services to be purchased are approximately \$9,639,000 through December 2016.

Note 10 - Power Supply Purchase

In 1983, the BWL entered into 35-year power supply and project support contracts with the Michigan Public Power Agency (MPPA), of which the BWL is a member. Under the agreement, the BWL has the ability to purchase power from MPPA, will sell power to MPPA at an agreed-upon rate, and will purchase 64.29 percent of the energy generated by MPPA's 37.22 percent ownership in Detroit Edison's Belle River Unit #1 (Belle River), which became operational in August 1984.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 10 – Power Supply Purchase (Continued)

Under the terms of its contract, the BWL must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Belle River. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and a 3.0 percent annual inflation of fixed operating costs, which include expected major maintenance projects.

Year	Debt Service	Estimated Fixed Operating Costs	Total Required
2016	\$ 26,515,502	\$ 12,521,064	\$ 39,036,566
2017	23,720,173	13,603,908	37,324,081
2018	18,257,255	14,732,532	32,989,787
Total	<u>\$ 68,492,930</u>	<u>\$ 40,857,504</u>	<u>\$ 109,350,434</u>

In addition to the above required payments, the BWL must pay for fuel, other operating costs, and transmission costs related to any kilowatt hours (KWHs) purchased under these contracts.

The BWL recognized expenses for 2015 and 2014 of \$53,051,047 and \$52,549,164, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

In connection with the Belle River purchase, in December 2002, MPPA issued \$280,180,000, principal amount, of its Belle River Project Refunding Revenue Bonds, 2002 Series A, with rates ranging from 2.125 percent to 5.25 percent to advance refund \$330,850,000 of outstanding 1993A and B bonds.

The BWL has entered into agreements with Granger Electric Company to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028 and September 30, 2028. The minimum power to be purchased in the contract is 3.2 megawatts, with the option to purchase up to 12 megawatts depending on capacity. The price of the electricity is based on the BWL's cost of electricity generation. The total amount of electricity expected to be purchased from these contracts is estimated at \$140,000,000.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of an eligible financial institution; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The operating cash investment policy adopted by the BWL in accordance with Public Act 20, as amended, and the Lansing City Charter has authorized investment in bonds and securities of the United States government, certificates of deposit, time deposits, and bankers' acceptances of qualified financial institutions, commercial paper rated A1 by Standard & Poor's and P1 by Moody's, repurchase agreements using bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, and liquid asset accounts managed by a qualified financial institution using any of these securities. The BWL's deposits and investment policies are in accordance with statutory authority.

The BWL's cash and investments are subject to several types of risk, which are examined in more detail below:

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At year end, the BWL had \$1,666,654 of bank deposits that were uninsured and uncollateralized. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$ 91,596,540	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments to a maximum maturity of five years unless matched to a specific cash flow. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1 year	1-5 years	6-10 years
Pooled investment funds (if not 2a-7)	\$ 71,850,969	\$ 71,850,969	\$ -	\$ -
U.S. government or agency bond or note	\$ 91,435,063	29,617,760	\$ 61,817,303	\$ -

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 22,121,544	11.91
Money market trust funds	7,958,648	Less than 1 year
Corporate bonds	32,582,122	14.13

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 71,850,969	AAA	S&P

Concentration of Credit Risk - As of year end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 138,830,601	Not Rated	Not Rated
Government or agency bond	22,121,544	Not Rated	Not Rated
Stable value	31,844,948	AA	S&P
Corporate bonds	-	Not Rated	Not Rated
Corporate bonds	3,509,599	AAA	S&P
Corporate bonds	12,528,632	AA+	S&P
Corporate bonds	709,117	AA	S&P
Corporate bonds	441,815	AA-	S&P
Corporate bonds	1,424,862	A+	S&P
Corporate bonds	2,614,518	A	S&P
Corporate bonds	3,513,111	A-	S&P
Corporate bonds	2,559,638	BBB+	S&P
Corporate bonds	1,982,318	BBB	S&P
Corporate bonds	1,195,013	BBB-	S&P
Corporate bonds	262,236	BB+	S&P
Corporate bonds	109,150	BB	S&P
Corporate bonds	279,092	BB-	S&P
Corporate bonds	102,069	B+	S&P
Corporate bonds	141,348	B	S&P
Corporate bonds	574,676	B-	S&P
Corporate bonds	-	CCC+	S&P
Corporate bonds	508,305	CCC	S&P
Corporate bonds	126,625	D	S&P

Foreign Currency Risk - The BWL does not hold investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Risks at June 30, 2014

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At June 30, 2014, the BWL had \$12,590,239 of bank deposits that were uninsured and uncollateralized. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$ 102,168,958	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments to a maximum maturity of five years unless matched to a specific cash flow. At year end, the average maturities of investments are as follows:

	Fair Value	Less than		
		1 Year	1-5 Years	6-10 years
Pooled investment funds (if not 2a-7)	\$ 59,126,052	\$ 59,126,052	\$ -	\$ -
U.S. government or agency bond or note	101,633,888	5,753,547	94,780,419	1,099,922
Commercial paper	29,003,071	29,003,071	-	-

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 23,639,025	11.87
Money market trust funds	8,662,335	Less than 1 year
Corporate bonds	32,558,775	14.02

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 59,126,052	AAA	S&P
Commercial paper	1,365,956	A1/P1	S&P
	4,994,396	A1+/P1	S&P
	2,996,083	A1/P1	S&P
	4,993,739	A1/P1	S&P
	1,313,050	A1/P1	S&P
	3,246,733	A1/P1	S&P
	4,098,924	A1+/P1	S&P
	2,997,393	A1+/P1	S&P
	2,996,798	A1/P1	S&P

Concentration of Credit Risk - As of year end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 133,962,556	Not Rated	Not Rated
Government or agency bond	23,639,025	Not Rated	Not Rated
Stable value	33,607,203	AA	S&P
Corporate bonds	-	Not Rated	Not Rated
Corporate bonds	3,689,662	AAA	S&P
Corporate bonds	12,190,600	AA+	S&P
Corporate bonds	627,423	AA	S&P
Corporate bonds	518,898	AA-	S&P
Corporate bonds	1,426,951	A+	S&P
Corporate bonds	2,412,053	A	S&P
Corporate bonds	3,918,625	A-	S&P
Corporate bonds	2,300,585	BBB+	S&P
Corporate bonds	1,884,206	BBB	S&P
Corporate bonds	1,392,016	BBB-	S&P
Corporate bonds	217,513	BB+	S&P
Corporate bonds	315,865	BB	S&P
Corporate bonds	171,619	BB-	S&P
Corporate bonds	80,813	B+	S&P
Corporate bonds	63,000	B	S&P
Corporate bonds	142,363	B-	S&P
Corporate bonds	-	CCC+	S&P
Corporate bonds	1,141,078	CCC	S&P
Corporate bonds	65,505	CC	S&P

Foreign Currency Risk - The BWL does not hold investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 12 - Estimated Liability for Excess Earnings on Water Supply and Electric Utility System Revenue Bonds

In accordance with Section 148(f)(2) of the IRC of 1986, as amended, the BWL is required on each anniversary date (July 1) of the Water Supply, Electric Utility, and Steam Utility System Revenue Bonds, Series 2008A, 2011A, 2012A, and 2013A to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

The estimated liability for excess earnings was \$0 at June 30, 2015 and 2014. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

Note 13 - Risk Management and Insurance

The BWL is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The BWL has purchased commercial insurance for certain general liability, business auto, excess liability, property and boiler and machinery, public officials and employee liability claims, specific excess health insurance claims, and specific excess workers' compensation claims, subject to policy terms, limits, limitations, and deductibles. The BWL is self-insured for most workers' compensation and health insurance claims. The BWL has various levels of stop loss coverage that limits the BWL's exposure as it relates to self-insured claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 13 - Risk Management and Insurance (Continued)

The BWL estimates the liability for self-insured workers' compensation and health insurance claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation			Health Insurance		
	2015	2014	2013	2015	2014	2013
Unpaid claims -						
Beginning of year	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 1,637,276	\$ 1,590,814	\$ 1,606,994
Incurred claims,						
incurred but not						
reported	554,773	864,854	1,077,383	20,853,299	18,340,955	18,644,371
Claim payments	(354,773)	(864,854)	(1,077,383)	(21,302,403)	(18,294,493)	(18,660,551)
Unpaid claims -						
End of year	<u>\$ 2,200,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,188,172</u>	<u>\$ 1,637,276</u>	<u>\$ 1,590,814</u>

Note 14 - Wise Road Reconstruction Project

In July 2011, the Wise Road water treatment plant was damaged by a chemical spill. The piping and electrical systems were damaged and are being replaced or repaired. The estimate to replace or repair the damaged equipment is approximately \$21.1 million, of which \$17.5 million has been recouped from our insurance carrier.

Note 15 - Upcoming Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The BWL is currently evaluating the impact this standard will have on the financial statements when adopted during the BWL's 2016 fiscal year.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 15 - Upcoming Pronouncements (Continued)

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the BWL will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The BWL is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2015 and 2014

Note 16 - Change in Accounting

During the current year, the BWL adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the statements now include an asset for our overfunded defined benefit plan legacy costs. Some of the changes in this net pension asset will be recognized immediately as part of the pension expense measurement, and other changes will be deferred and recognized over future years. Refer to the Defined Benefit Plan section of Note 8 for further details.

As a result of implementing this statement, the following line items have been added to the statement of Net Position:

Item	As of June 30, 2015	As of June 30, 2014
Deferred inflows of resources - Net pension asset deferrals	\$ 2,201,407	\$ 7,143,206
Net Pension Asset	8,284,230	11,188,702

As this statement is applied retroactively, the financial statements for the year ended June 30, 2014 have been restated to apply the changes noted associated with the net pension asset.

The effect of this change is as follows:

Net Position - June 30, 2013, as originally reported	\$ 575,725,088
GASB 68 adjustment to record net pension asset as of June 30, 2013	<u>8,144,426</u>
Net Position - June 30, 2013, as restated	<u>\$ 583,869,514</u>
Net Income - June 30, 2014, as originally reported	\$ 2,792,527
GASB 68 adjustment to record net pension expense for the year ended June 30, 2014 (included in administrative and general expense)	<u>(4,098,930)</u>
Net Loss - June 30, 2014, as restated	<u>\$ (1,306,403)</u>

Required Supplemental Information

Board of Water and Light - City of Lansing, Michigan

Required Supplemental Information Defined Benefit Plan - Schedule of Changes in the BWL Net Pension Asset and Related Ratios Last Ten Fiscal Years (in thousands)

	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*	2006*
Total Pension Liability										
Service cost	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	4,919	4,751	5,085	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(1,093)	964	(1,716)	-	-	-	-	-	-	-
Changes in assumptions **	-	4,538	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-	-
Net Change in Total Pension Liability	(3,946)	2,061	(4,001)							
Total Pension Liability - Beginning of year	69,341	67,280	71,281							
Total Pension Liability - End of year	65,395	69,341	67,280							
Plan Fiduciary Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	1,771	14,243	10,170	-	-	-	-	-	-	-
Administrative expenses	(576)	(596)	(536)	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(6,850)	5,106	1,857							
Plan Fiduciary Net Position - Beginning of year	80,529	75,424	73,567							
Plan Fiduciary Net Position - End of year	73,679	80,530	75,424							
BWL Net Pension Asset - Ending	\$ (8,284)	\$ (11,189)	\$ (8,144)							
Plan Fiduciary Net Position as a % of Total Pension Liability	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	1,018	1,225	1,684	-	-	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(8.14%)	(9.13%)	(48.4%)	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 68 was implemented as of June 30, 2015. Information from 2006 - 2012 is not available and this schedule will be presented on a prospective basis.

**Related to change in the mortality assumption from the RP2000CH table projected to 2018 with Scale AA to the RP-2014 table projected generationaly with Scale MP-2014

Board of Water and Light - City of Lansing, Michigan

Required Supplemental Information Defined Benefit Plan - Schedule of Employer Contributions Last Ten Fiscal Years (in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	86	2,109	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162	3,391	3,942
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	3.59%	79.29%	- %	- %	- %	- %

Board of Water and Light - City of Lansing, Michigan

Required Supplemental Information Retiree Benefit Plan and Trust Schedule Years Ended June 30, 2015 and 2014

The schedule of funding progress is as follows:

<u>Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>
2/28/2012	\$ 110,029	\$245,418	\$ 135,389	44.83%
2/28/2013	123,195	207,864	84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,565	200,196	42,631	78.71%

Additional Information

Board of Water and Light - City of Lansing, Michigan

Income Available for Revenue Bond Debt Retirement

	Year Ended June 30	
	2015	2014
Income - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 12,627,295	\$ (1,306,403)
Adjustments to Income		
Depreciation and impairment	39,104,343	38,997,186
Interest on long-term debt:		
Notes	49,691	41,555
Revenue bonds	<u>14,995,574</u>	<u>15,334,915</u>
Total additional income	<u>54,149,608</u>	<u>54,373,656</u>
Income Available for Revenue Bonds and Interest Redemption	<u>\$ 66,776,903</u>	<u>\$ 53,067,253</u>
Debt Retirement Pertaining to Revenue Bonds		
Principal	\$ 14,155,000	\$ 13,385,000
Interest	<u>14,995,574</u>	<u>15,334,915</u>
Total	<u>\$ 29,150,574</u>	<u>\$ 28,719,915</u>
Percent Coverage of Revenue Bonds and Interest Requirements	<u>229</u>	<u>185</u>

Board of Water and Light - City of Lansing, Michigan

Detail of Statement of Revenues and Expenses Years Ended June 30, 2015 and 2014

	Combined		Water	
	2015	2014	2015	2014
Operating Revenues				
Water	\$ 37,910,106	\$ 37,246,939	\$ 37,910,106	\$ 37,246,939
Electric:				
Retail	266,878,053	257,333,075	-	-
Sales for resale	28,169,851	31,821,390	-	-
Steam	14,959,212	16,324,128	-	-
Chilled water	5,568,287	5,397,411	-	-
Total operating revenues	353,485,509	348,122,943	37,910,106	37,246,939
Operating Expenses				
Production:				
Fuel, purchased power, and other operating expenses	163,336,653	165,199,058	8,104,909	8,957,388
Maintenance	24,415,690	17,045,140	3,134,979	2,981,167
Transmission and distribution:				
Operating expenses	7,006,002	11,829,786	1,419,800	1,478,877
Maintenance	13,864,024	11,262,716	3,582,512	3,554,104
Administrative and general	61,297,460	66,583,248	10,875,024	11,709,798
Depreciation and impairment	39,104,343	38,997,186	6,155,947	6,529,406
Total operating expenses	309,024,172	310,917,134	33,273,171	35,210,740
Operating Income	44,461,337	37,205,809	4,636,935	2,036,199
Nonoperating Income (Expenses)				
Investment income	1,351,006	1,866,462	219,281	279,183
Other income	1,534,922	(5,974,385)	921,168	(199,915)
System capacity fee	9,223,075	9,222,989	807,942	807,934
Bonded debt interest expense	(14,995,574)	(15,334,915)	(1,858,926)	(2,299,249)
Amortization - Central Utilities Complex	(8,057,715)	(7,642,715)	(705,856)	(669,502)
Payment in lieu of taxes	(20,840,065)	(20,608,093)	(2,248,922)	(2,230,811)
Other interest expense	(49,691)	(41,555)	(4,366)	(4,039)
Total nonoperating expense	(31,834,042)	(38,512,212)	(2,869,679)	(4,316,399)
Net Income (Loss)	\$ 12,627,295	\$ (1,306,403)	\$ 1,767,256	\$ (2,280,200)

Detail of Statement of Revenues and Expenses (Continued)
Years Ended June 30, 2015 and 2014

Electric		Steam		Chilled Water	
2015	2014	2015	2014	2015	2014
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
266,878,053	257,333,075	-	-	-	-
28,169,851	31,821,390	-	-	-	-
-	-	14,959,212	16,324,128	-	-
-	-	-	-	5,568,287	5,397,411
295,047,904	289,154,465	14,959,212	16,324,128	5,568,287	5,397,411
147,658,997	145,645,050	6,103,489	9,019,050	1,469,258	1,577,570
20,499,896	13,322,981	544,181	548,042	236,634	192,950
5,235,380	10,057,156	350,822	293,753	-	-
9,979,670	7,262,321	301,536	421,252	306	25,039
49,245,600	53,414,153	984,240	1,190,697	192,596	268,600
29,178,160	28,887,165	2,451,617	2,200,476	1,318,619	1,380,139
261,797,703	258,588,826	10,735,885	13,673,270	3,217,413	3,444,298
33,250,201	30,565,639	4,223,327	2,650,858	2,350,874	1,953,113
1,023,221	1,386,482	58,070	123,840	50,434	76,957
586,071	(2,846,705)	(186,030)	(2,920,159)	213,713	(7,606)
7,712,335	7,712,263	702,798	702,792	-	-
(10,744,870)	(11,828,911)	(2,044,620)	(428,751)	(347,158)	(778,004)
(6,737,861)	(6,390,838)	(613,998)	(582,375)	-	-
(17,386,779)	(17,200,740)	(871,399)	(849,248)	(332,965)	(327,294)
(45,153)	(37,516)	(172)	-	-	-
(25,593,036)	(29,205,965)	(2,955,351)	(3,953,901)	(415,976)	(1,035,947)
\$ 7,657,165	\$ 1,359,674	\$ 1,267,976	\$ (1,303,043)	\$ 1,934,898	\$ 917,166

Board of Water and Light - City of Lansing, Michigan

Detail of Statement of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
Net Position - June 30, 2013, as originally reported	\$ 575,725,088	\$ 94,250,278	\$ 486,560,920	\$ (4,003,088)	\$ (1,083,022)
GASB 68 adjustment to record net pension asset as of June 30, 2013 (Note 16)	<u>8,144,426</u>	<u>1,677,752</u>	<u>5,991,040</u>	<u>452,830</u>	<u>22,804</u>
Net Position - June 30, 2013, as restated	583,869,514	95,928,030	492,551,960	(3,550,258)	(1,060,218)
Income (loss), as restated	<u>(1,306,403)</u>	<u>(2,280,200)</u>	<u>1,359,674</u>	<u>(1,303,043)</u>	<u>917,166</u>
Net Position - June 30, 2014, as restated	582,563,111	93,647,830	493,911,634	(4,853,301)	(143,052)
Income (loss)	<u>12,627,295</u>	<u>1,767,256</u>	<u>7,657,165</u>	<u>1,267,976</u>	<u>1,934,898</u>
Net Position - June 30, 2015	<u>\$ 595,190,406</u>	<u>\$ 95,415,086</u>	<u>\$ 501,568,799</u>	<u>\$ (3,585,325)</u>	<u>\$ 1,791,846</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Net Position

	June 30, 2015			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
Assets				
Receivable - Investment interest receivable	\$ -	\$ 104,768	\$ 200,805	\$ 305,573
Investments at fair value:				
Money market collective trust fund	-	2,321,310	6,243,203	8,564,513
U.S. government obligations	-	6,659,203	15,462,341	22,121,544
Corporate bonds and notes	-	11,312,551	21,269,571	32,582,122
Mutual funds	136,010,607	925,065	1,894,929	138,830,601
Stable value	31,844,948	-	-	31,844,948
Equities	-	52,356,437	111,112,369	163,468,806
Current liability	-	-	-	-
Self-directed brokerage account	1,376,730	-	-	1,376,730
Participant notes receivable	3,888,351	-	-	3,888,351
Total investments	<u>173,120,636</u>	<u>73,574,566</u>	<u>155,982,413</u>	<u>402,677,615</u>
Net Position - Held in trust for pension and other employee benefits	<u>\$ 173,120,636</u>	<u>\$ 73,679,334</u>	<u>\$ 156,183,218</u>	<u>\$ 402,983,188</u>

	June 30, 2014			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
Assets				
Receivable - Investment interest receivable	\$ -	\$ 120,156	\$ 211,625	\$ 331,781
Investments at fair value:				
Money market collective trust fund	-	3,192,936	5,711,439	8,904,375
U.S. government obligations	-	7,354,686	16,284,339	23,639,025
Corporate bonds and notes	-	11,844,906	20,713,869	32,558,775
Mutual funds	130,442,786	1,260,129	2,259,641	133,962,556
Stable value	33,607,203	-	-	33,607,203
Equities	-	56,770,168	108,540,537	165,310,705
Current liability	-	(13,000)	-	(13,000)
Self-directed brokerage account	1,147,041	-	-	1,147,041
Participant notes receivable	4,082,709	-	-	4,082,709
Total investments	<u>169,279,739</u>	<u>80,409,825</u>	<u>153,509,825</u>	<u>403,199,389</u>
Net Position - Held in trust for pension and other employee benefits	<u>\$ 169,279,739</u>	<u>\$ 80,529,981</u>	<u>\$ 153,721,450</u>	<u>\$ 403,531,170</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position Year Ended June 30, 2015

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in fair value of investments	\$ 21,201	\$ 215,209	\$ 650,079	\$ 886,489
Interest and dividend income	7,295,819	1,556,214	2,964,616	11,816,649
Net investment income	7,317,020	1,771,423	3,614,695	12,703,138
Employer contributions	5,548,360	-	9,670,794	15,219,154
Participant rollover contributions	1,345,481	-	-	1,345,481
Other	307,138	-	-	307,138
Total increases	14,517,999	1,771,423	13,285,489	29,574,911
Decreases				
Benefits paid to participants	10,451,713	8,045,948	9,670,794	28,168,455
Loan defaults	125,254	-	-	125,254
Participants' note and administrative fees	100,135	576,122	1,152,927	1,829,184
Total decreases	10,677,102	8,622,070	10,823,721	30,122,893
Net Increase (Decrease) in Net Position Held in Trust	3,840,897	(6,850,647)	2,461,768	(547,982)
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	169,279,739	80,529,981	153,721,450	403,531,170
End of year	<u>\$ 173,120,636</u>	<u>\$ 73,679,334</u>	<u>\$ 156,183,218</u>	<u>\$ 402,983,188</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position Year Ended June 30, 2014

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in				
fair value of investments	\$ 17,907,856	\$ 12,570,312	\$ 22,774,150	\$ 53,252,318
Interest and dividend income	5,545,714	1,672,852	2,893,629	10,112,195
Total investment income	23,453,570	14,243,164	25,667,779	63,364,513
Employer contributions	5,467,824	-	9,266,529	14,734,353
Participant rollover contributions	1,053,879	-	-	1,053,879
Other	270,989	-	-	270,989
Total increases	30,246,262	14,243,164	34,934,308	79,423,734
Decreases				
Benefits paid to participants	7,645,116	8,541,275	9,266,529	25,452,920
Loan defaults	119,694	-	-	119,694
Participants' note and administrative fees	96,155	595,925	1,050,771	1,742,851
Total decreases	7,860,965	9,137,200	10,317,300	27,315,465
Net Increase in Net Position Held in Trust	22,385,297	5,105,964	24,617,008	52,108,269
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	146,894,442	75,424,017	129,104,442	351,422,901
End of year	<u>\$ 169,279,739</u>	<u>\$ 80,529,981</u>	<u>\$ 153,721,450</u>	<u>\$ 403,531,170</u>

**Plan for Employees' Pension of the Board of
Water and Light - City of Lansing, Michigan -
Defined Benefit Plan**

**Financial Report
with Required Supplemental Information
June 30, 2015**

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

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Independent Auditor's Report

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
Plan for Employees' Pension of the Board of Water and Light -
City of Lansing, Michigan - Defined Benefit Plan
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan") as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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. Those standards require that we plan and perform the audits 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 entity'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 entity'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 opinions.

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
Plan for Employees' Pension of the Board of Water and Light -
City of Lansing, Michigan - Defined Benefit Plan

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net position of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan as of June 30, 2015 and 2014 and the changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 and the schedule of changes in the BWL's net pension asset and related ratios, schedule of employer contributions, and schedule of investment returns on pages 21-24 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 supplemental 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.

Plante & Morse, PLLC

August 28, 2015

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior two years:

	2015	2014	2013
Assets held in trust:			
Money market collective trust fund	\$ 2,321,310	\$ 3,192,936	\$ 3,209,522
U.S. government obligations	6,659,203	7,354,686	8,301,126
Corporate bonds and notes	11,312,551	11,844,906	12,168,664
Mutual funds	925,065	1,260,129	1,171,547
Common stock	52,356,437	56,770,168	50,459,178
Interest and dividend receivable	104,768	120,156	113,980
Total assets held in trust	<u>\$ 73,679,334</u>	<u>\$ 80,542,981</u>	<u>\$ 75,424,017</u>
Liabilities - Accrued liabilities	\$ -	\$ 13,000	\$ -
Net position restricted for pension	<u>73,679,334</u>	<u>80,529,981</u>	<u>75,424,017</u>
Total liabilities and net position	<u>\$ 73,679,334</u>	<u>\$ 80,542,981</u>	<u>\$ 75,424,017</u>
Changes in net position:			
Net investment income	\$ 1,771,423	\$ 14,243,164	\$ 10,169,847
Benefit payments	(8,045,948)	(8,541,275)	(7,777,260)
Administrative fees	(576,122)	(595,925)	(535,567)
Net change in net position	<u>\$ (6,850,647)</u>	<u>\$ 5,105,964</u>	<u>\$ 1,857,020</u>

During fiscal year 2015, net investment income was \$1.8 million. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

Employer contributions were \$0 in fiscal year 2015 according to the Board of Water and Light - City of Lansing, Michigan's (the "BWL") annual required contribution (ARC) as determined by the BWL's actuary.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Management's Discussion and Analysis (Continued)

Benefit payments in fiscal year 2015 decreased by \$0.5 million to \$8.0 million. This was due to a decrease in funds distributed in the form of lump-sum payouts upon retirement in fiscal year 2015 as compared to fiscal year 2014.

The BWL reimburses itself for the cost of retiree healthcare benefits pursuant to Internal Revenue Code Section 420. Reimbursement from the defined benefit pension plan assets is allowed to the extent that excess funds are available for transfer. In fiscal years 2015, 2014, and 2013, there were no excess funds available for transfer.

Investment Objectives and Asset Allocation

The Plan's assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Plan, the BWL has taken into account the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance.

In consideration of the Plan's investment goals, demographics, time horizon available for investment, and the overall risk tolerance of the BWL, a long-term investment objective of income and growth has been adopted for the Plan's assets. The primary objectives of the Plan's assets are to fund all disbursements as they are due to meet the actuarial rate of return of 7.5 percent, and to earn returns in excess of a passive set of market indexes representative of the Plan's asset allocation.

Consistent with the advice of the investment advisor, the BWL has selected the following target asset allocation strategy:

Domestic Large Capitalization Stocks	45.0%
Domestic Small Capitalization Stocks	10.0%
International Stocks	14.2%
U.S. Core Fixed Income	30.8%

Investment Results

The fiscal year ended June 30, 2015 saw a net investment income, net of administrative expenses, of \$1.2 million. We believe that this gain is in line with the level of gains experienced by other employee benefit funds during this period.

Future Events

The Plan is currently overfunded, with a funded ratio (actuarial asset value divided by actuarial accrued liability) of 113 percent. This funding level results in an annual pension cost of \$0 for fiscal year 2015. The board does not expect to make contributions to the trust in fiscal year 2016.

The Plan expects to make annual withdrawals of approximately \$7,000,000 to cover participant benefits.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Management's Discussion and Analysis (Continued)

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Heather Shawa-DeCook, Chief Financial Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Statement of Plan Net Position

	June 30	
	2015	2014
Assets		
Investments at fair value:		
Cash and money market trust fund	\$ 2,321,310	\$ 3,192,936
U.S. government obligations	6,659,203	7,354,686
Corporate bonds and notes	11,312,551	11,844,906
Mutual funds	925,065	1,260,129
Common stocks	52,356,437	56,770,168
	<u>73,574,566</u>	<u>80,422,825</u>
Total investments at fair value		
Receivable - Investment interest receivable	104,768	120,156
	<u>73,679,334</u>	<u>80,542,981</u>
Total assets		
Liabilities - Accrued liabilities	-	13,000
	<u>\$ 73,679,334</u>	<u>\$ 80,529,981</u>
Net Position Restricted for Pensions		

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Statement of Changes in Plan Net Position

	Year Ended June 30	
	2015	2014
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 215,209	\$ 12,570,312
Interest and dividend income	1,556,214	1,672,852
Total investment income	1,771,423	14,243,164
Deductions		
Retiree benefits paid	8,045,948	8,541,275
Administrative expenses	576,122	595,925
Total deductions	8,622,070	9,137,200
Net (Decrease) Increase in Fiduciary Net Position	(6,850,647)	5,105,964
Fiduciary Net Position		
Beginning of year	80,529,981	75,424,017
End of year	<u>\$ 73,679,334</u>	<u>\$ 80,529,981</u>

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

**Notes to Financial Statements
June 30, 2015 and 2014**

Note I - Summary of Significant Accounting Policies

Reporting Entity

The Board of Water and Light - City of Lansing, Michigan (BWL) sponsors the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan"), which is a noncontributory single-employer defined benefit, public employee retirement system established and administered by the BWL under Section 5-203 of the City Charter. An employee becomes a participant of the Plan when hired. A participant's interest shall be fully vested when the participant has been credited with seven years of vesting service. The Plan was established in 1939 and has been amended several times, with the latest amendment taking effect on July 1, 2010. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

Accounting and Reporting Principles

The Plan follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Basis of Accounting

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Report Presentation

This report includes the fund-based statements of the Plan.

Investment Valuation and Income Recognition - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales prices. Investments that do not have an established market are reported at estimated fair value.

Purchases and sales of securities are recorded on a trade-date basis.

Appreciation or depreciation of investments is calculated based on the beginning of year fair value of investments.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenses - Substantially all costs and expenses incurred in connection with the operation and administration of the Plan are paid by the BWL, the plan sponsor. The Plan does pay all expenses incurred in connection with the custodial safekeeping account and investment advisor fees, which have been netted with interest and dividend income. Beginning in fiscal year 2008, the Plan began to pay the fees associated with the actuarial evaluation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Regulatory Status - The Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

Note 2 - Plan Description

Plan Administration - The BWL Pension Board administers the Plan - a noncontributory single-employer defined benefit pension plan for employees of the BWL. The benefit terms were established by the BWL and may be amended by future BWL actions.

Management of the Plan is vested in the BWL, which consists of eight members appointed by the mayor of the City of Lansing, Michigan.

Plan Membership - At February 28, 2015 and 2014 (the most recent actuarial valuation for funding purposes), plan membership consisted of the following:

	2015	2014
Inactive plan members or beneficiaries		
currently receiving benefits	398	413
Inactive plan members entitled to but not		
yet receiving benefits	8	9
Active plan members	14	17
Total	<u>420</u>	<u>439</u>

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 2 - Plan Description (Continued)

The Plan, by resolution of the board of commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan, which were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan. As a result of this action, effective December 1, 1997, the board of commissioners transferred \$75,116,470 to the newly established defined contribution plan, reflecting the plan participants' accumulated benefits as of said date.

Benefits Provided - The Plan provides retirement, early retirement, disability, termination, and death benefits. The Plan provides for an annual benefit upon normal retirement age equal to the product of the total number of years of credited service multiplied by a percentage equal to 1.80 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

Payments will either be nonincreasing or increase only as follows: (a) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics; (b) to the extent of the reduction in the amount of the employee's payments to provide for a survivor benefit upon death, but only if the beneficiary whose life was being used to determine the distribution period described in subsection 8 dies or is no longer the employee's beneficiary pursuant to a qualified domestic relations order within the meaning of Internal Revenue Code Section 414(p); (c) to provide cash refunds of employee contributions upon the employee's death; or (d) to pay increased benefits that result from a plan amendment.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2014 and 2015. Plan documents do not require participant contributions.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan's deposits and investment policies are in accordance with PA 196 of 1997; the Plan has authorized the investments according to Michigan PA 314 of 1965, as amended.

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are therefore not subject to custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond	\$ 6,659,203	12.97 years
Corporate bonds	11,312,551	14.59 years
Money market trust fund	1,906,792	Less than 1 year

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government or agency bond	\$ 6,659,203	Not rated	Not rated
Corporate bonds	1,040,057	AAA	S&P
Corporate bonds	4,637,184	AA+	S&P
Corporate bonds	261,047	AA	S&P
Corporate bonds	118,461	AA-	S&P
Corporate bonds	488,182	A+	S&P
Corporate bonds	927,872	A	S&P
Corporate bonds	1,296,826	A-	S&P
Corporate bonds	892,810	BBB+	S&P
Corporate bonds	698,087	BBB	S&P
Corporate bonds	333,191	BBB-	S&P
Corporate bonds	10,250	BB	S&P
Corporate bonds	105,867	BB+	S&P
Corporate bonds	17,786	BB-	S&P
Corporate bonds	38,325	B+	S&P
Corporate bonds	390,595	CCC	S&P
Corporate bonds	56,013	D	S&P
Money market trust fund	1,906,792	Not rated	Not rated

Concentration of Credit Risk - The board of commissioners places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan does not hold more than 5 percent of its investments in any one issuer.

Risks at June 30, 2014

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are therefore not subject to custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond	\$ 7,354,686	12.79 years
Corporate bonds	11,844,906	14.26 years
Money market trust fund	3,104,927	Less than 1 year

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government or agency bond	\$ 7,354,686	Not rated	Not rated
Corporate bonds	1,097,382	AAA	S&P
Corporate bonds	4,590,886	AA+	S&P
Corporate bonds	217,542	AA	S&P
Corporate bonds	193,884	AA-	S&P
Corporate bonds	612,123	A+	S&P
Corporate bonds	952,508	A	S&P
Corporate bonds	1,483,155	A-	S&P
Corporate bonds	780,999	BBB+	S&P
Corporate bonds	640,981	BBB	S&P
Corporate bonds	544,851	BBB-	S&P
Corporate bonds	98,555	BB	S&P
Corporate bonds	78,154	BB+	S&P
Corporate bonds	32,325	BB-	S&P
Corporate bonds	26,250	B	S&P
Corporate bonds	495,311	CCC	S&P
Money market trust fund	3,104,927	Not rated	Not rated

Concentration of Credit Risk - The board of commissioners places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan does not hold more than 5 percent of its investments in any one issuer.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 4 - Net Appreciation or Depreciation of Investments

The net appreciation (depreciation) of the Plan's investments is as follows:

	2015	2014
Investments at fair value as determined by quoted market price:		
U.S. government obligations	\$ 119,270	\$ 90,724
Corporate bonds and notes	(192,596)	195,217
Mutual funds	(133,224)	200,285
Common stocks and mutual funds	332,467	12,031,656
Alternative investments	89,292	52,430
	<u>215,209</u>	<u>12,570,312</u>
Total	<u>\$ 215,209</u>	<u>\$ 12,570,312</u>

Note 5 - 401(h) Account

Effective July 1, 1999, the Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component 401(h) account. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the plan sponsor. At June 30, 2015 and 2014, there were no excess pension plan assets available for transfer.

Note 6 - Tax Status

The Plan obtained its determination letter dated November 4, 2011, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. Management believes the Plan continues to operate as a qualified plan.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 7 - Plan Investments - Policy and Rate of Return

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the BWL's adopted asset allocation policy as of June 30, 2015 and 2014:

Asset Class	Target Allocation
Fixed income	30.80%
Domestic equity	55.00%
International equity	14.20%

Rate of Return - For the year ended June 30, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 1.55 percent. For the year ended June 30, 2014, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 19.18 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 8 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2015 and 2014 were as follows (in thousands):

	2015	2014
Total pension liability	\$ 65,395	\$ 69,341
Plan fiduciary net position	73,679	80,530
Plan's net pension asset	\$ (8,284)	\$ (11,189)
Plan fiduciary net position, as a percentage of the total pension liability	112.67%	116.13%

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Net Pension Asset of the BWL (Continued)

Actuarial Assumptions - The June 30, 2015 total pension liability was determined by an actuarial valuation as of February 28, 2015, which used update procedures to roll forward the estimated liability to June 30, 2015. The June 30, 2014 total pension liability was determined by an actuarial valuation as of February 28, 2014, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuations used the following actuarial assumptions, applied to all periods included in the measurements:

Inflation	3.00%
Salary increases	6.44%-10.26%
Investment rate of return	7.50%

The most recent experience review was completed in 2014. Since the Plan covered 14 active participants in fiscal year 2015 and 17 active participants in fiscal year 2014, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Mortality rates were based on the RP-2014 mortality table projected generationally with scale MP-2014.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows Section - Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Net Pension Asset of the BWL (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2015 and 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in Note 7, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Fixed income	2.00%
Domestic equity	6.40%
International equity	6.80%

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following presents the net pension asset of the BWL at June 30, 2015, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate (7.50 %)	1% Increase (8.50%)
Net pension asset of the BWL (in thousands)	\$ (3,053)	\$ (8,284)	\$ (13,128)

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Net Pension Asset of the BWL (Continued)

The following presents the net pension asset of the BWL at June 30, 2014, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate (7.50 %)	1% Increase (8.50%)
Net pension asset of the BWL (in thousands)	\$ (5,315)	\$ (11,189)	\$ (16,603)

Note 9 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Plan is currently evaluating the impact this standard will have on the financial statements when adopted during the Plan's 2016 fiscal year.

Required Supplemental Information

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Schedule of Changes in the BWL's Net Pension Asset and Related Ratios Last Ten Fiscal Years (in thousands)

	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*	2006*
Total Pension Liability										
Service cost	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	4,919	4,751	5,085	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(1,093)	964	(1,716)	-	-	-	-	-	-	-
Changes in assumptions **	-	4,538	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-	-
Net Change in Total Pension Liability	(3,946)	2,061	(4,001)	-	-	-	-	-	-	-
Total Pension Liability - Beginning of year	69,341	67,280	71,281	-	-	-	-	-	-	-
Total Pension Liability - End of year	65,395	69,341	67,280	-	-	-	-	-	-	-
Plan Fiduciary Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	1,771	14,243	10,170	-	-	-	-	-	-	-
Administrative expenses	(576)	(596)	(536)	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,045)	(8,541)	(7,777)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(6,850)	5,106	1,857	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of year	80,529	75,424	73,567	-	-	-	-	-	-	-
Plan Fiduciary Net Position - End of year	73,679	80,530	75,424	-	-	-	-	-	-	-
BWL Net Pension Asset - Ending	\$ (8,284)	\$ (11,189)	\$ (8,144)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan Fiduciary Net Position as a % of Total Pension Liability	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	1,018	1,225	1,684	-	-	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(814%)	(913%)	(484%)	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2006 - 2012 is not available and this schedule will be presented on a prospective basis.

**Related to change in the mortality assumption from the RP2000CH table projected to 2018 with Scale AA to the RP-2014 table projected generationally with Scale MP-2014

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Schedule of Employer Contributions Last Ten Fiscal Years (in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	86	2,109	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162	3,391	3,942
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	3.59%	79.29%	- %	- %	- %	- %

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Note to Required Supplemental Information Year Ended June 30, 2015

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2015, based on roll-forward of March 1, 2015 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	3.0 percent
Salary increases	6.44 percent-10.26 percent per year, depending on age
Investment rate of return	7.5 percent per year compounded annually
Mortality	RP-2014 Mortality Table projected generationally with scale MP-2014

Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

Schedule of Investment Returns Last Ten Fiscal Years

	2015	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*
Annual money-weighted rate of return, net of investment expense	1.55%	19.18%	- %	- %	- %	- %	- %	- %	- %	- %

*GASB 67 was implemented as of June 30, 2014. Information from 2006-2013 is not available and this schedule will be presented on a prospective basis.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

**Financial Report
with Required Supplemental Information
June 30, 2015**

Lansing Board of Water and Light Retiree Benefit Plan and Trust

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Independent Auditor's Report

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
Lansing Board of Water and Light Retiree Benefit
Plan and Trust
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan") as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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. Those standards require that we plan and perform the audits 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 entity'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 entity'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 opinions.

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
Lansing Board of Water and Light Retiree Benefit
Plan and Trust
City of Lansing, Michigan

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the trust net position of the Lansing Board of Water and Light Retiree Benefit Plan and Trust as of June 30, 2015 and 2014 and the changes in its trust net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, and schedule of employer contributions, as identified in the table of contents, 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 supplemental 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.

Plante & Morse, PLLC

August 28, 2015

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior two years:

	2015	2014	2013
Assets held in trust:			
Cash and money market trust funds	\$ 6,243,203	\$ 5,711,439	\$ 8,498,919
Corporate bonds and notes	21,269,571	20,713,869	19,321,385
Government bonds and notes	15,462,341	16,284,339	13,019,316
Equities	111,112,369	108,540,537	86,128,263
Mutual funds and other	1,894,929	2,259,641	1,950,935
Interest and dividend receivable	200,805	211,625	185,624
Total plan assets	<u>\$ 156,183,218</u>	<u>\$ 153,721,450</u>	<u>\$ 129,104,442</u>
Changes in net position:			
Net investment income	\$ 3,614,695	\$ 25,667,779	\$ 15,711,575
Employer contributions	9,670,794	9,266,529	14,045,204
Retiree benefits paid	(9,670,794)	(9,266,529)	(9,524,120)
Administrative fees	(1,152,927)	(1,050,771)	(798,561)
Net change in net position	<u>\$ 2,461,768</u>	<u>\$ 24,617,008</u>	<u>\$ 19,434,098</u>

During fiscal year 2015, net investment income was \$3.6 million. We believe this performance is in line with the overall level of returns experienced by similarly situated institutional investors.

The employer contributions were up by \$0.4 million due to the increase in the Board of Water and Light - City of Lansing, Michigan's (the "BWL") annual healthcare costs.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Management's Discussion and Analysis (Continued)

Investment Objectives and Asset Allocation

The Plan's assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Plan, the BWL has taken into account the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance. Consistent with this, the BWL has determined that the investment objective is income and growth. This investment objective is a balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long term.

Consistent with the advice of the investment advisor, the BWL has selected the following target asset allocation strategy:

Domestic large capitalization stocks	43.2%
Domestic small capitalization stocks	10.0%
International stocks	10.7%
U.S. core fixed income	31.1%
Private equity	5.0%

Investment Results

The fiscal year ended June 30, 2015 saw a net investment income, net of administrative expenses, of \$2.5 million. We believe this performance is in line with the overall level of recovery experienced by the stock and bond markets.

Future Events

The BWL is funding its other postemployment benefits (OPEBs) and is intending to meet its annual required contributions (ARC) in part by making contributions into the VEBA Trust Fund.

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Heather Shawa-DeCook, Chief Financial Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Statement of Trust Net Position

	June 30	
	2015	2014
Assets		
Investments - Fair value:		
Cash and money market trust funds	\$ 6,243,203	\$ 5,711,439
Corporate bonds and commercial paper	21,269,571	20,713,869
Government bonds and notes	15,462,341	16,284,339
Equities	111,112,369	108,540,537
Mutual funds	1,894,929	2,259,641
Total investments at fair value	155,982,413	153,509,825
Investment interest and dividend receivable	200,805	211,625
Trust Net Position	\$ 156,183,218	\$ 153,721,450

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Statement of Changes in Trust Net Position

	Year Ended June 30	
	2015	2014
Increase		
Investment income:		
Net appreciation in fair value of investments	\$ 650,079	\$ 22,774,150
Interest and dividend income	2,964,616	2,893,629
Total investment income	3,614,695	25,667,779
Employer contributions	9,670,794	9,266,529
Total increase	13,285,489	34,934,308
Decrease		
Retiree benefits paid	9,670,794	9,266,529
Administrative expenses	1,152,927	1,050,771
Total decrease	10,823,721	10,317,300
Net Increase in Trust Net Position	2,461,768	24,617,008
Net Position		
Beginning of year	153,721,450	129,104,442
End of year	<u>\$ 156,183,218</u>	<u>\$ 153,721,450</u>

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Description of the Plan

The following description of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan"), a trust fund of the Board of Water and Light - City of Lansing, Michigan (the "BWL"), provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

General - The Plan was established on October 20, 1999, effective as of July 1, 1999, to constitute a voluntary employee beneficiary association (VEBA) under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended. The Plan was formed for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years.

The Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 725 participants eligible to receive benefits at June 30, 2015 and 698 participants eligible at June 30, 2014.

Contributions to the Plan are a combination of amounts contributed by the BWL to the Plan and the direct cost of benefits paid to participants from the BWL's general cash flow. During the years ended June 30, 2015 and 2014, the cost to the BWL of maintaining the Plan was \$9,670,794 and \$9,266,529, respectively, all of which was incurred as direct costs of benefits.

Benefits - Benefits shall not be paid from this Plan to participants or their beneficiaries during a plan year in which there has been a "qualified transfer" pursuant to Internal Revenue Code Section 420(e)(1)(8) from the Lansing Board of Water and Light Defined Benefit Plan for the Employees' Pensions, except that once the "qualified transfer" has been exhausted for the purpose of paying qualified current retiree health liabilities, benefit payments may be made under this Plan consistent with Internal Revenue Code Section 420(e)(1)(B). After "qualified transfers" have been exhausted, benefits paid under this Plan shall be those benefits described in the relevant sections of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Trustees - Each member of the Lansing Board of Water and Light board of commissioners is a trustee during the term of office as a commissioner. The trustees have appointed Merrill Lynch, Pierce, Fenner & Smith Incorporated as custodian of the Plan's assets.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Description of the Plan (Continued)

Contributions - The Lansing Board of Water and Light makes contributions in such a manner and at such times as appropriate. All contributions received, together with the income thereon, are held, invested, reinvested, and administered by the trustees pursuant to the terms of the plan agreement. No employee contributions are allowed under this Plan. Contributions are recognized when due and when the amount to be contributed is committed by the BWL.

Participation - Participation in this Plan is determined in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2015, there were 725 active participants (not eligible to receive benefits), 80 disabled participants, 485 retired participants, 491 active spouses (not eligible to receive benefits), and 152 surviving spouses participating in the Plan. At June 30, 2014, there were 698 active participants (not eligible to receive benefits), 80 disabled participants, 476 retired participants, 473 active spouses (not eligible to receive benefits), and 140 surviving spouses participating in the Plan.

Vesting - Benefits become payable in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light. At no time will benefits of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light be vested. The BWL may reduce or eliminate any or all plan benefits at any time, subject to the requirements of any collective bargaining agreement.

Termination - In the event of plan termination, all plan assets shall be used to purchase additional eligible benefits in accordance with the terms of the plan agreement. In the event of dissolution, merger, consolidation, or reorganization of the BWL, the Plan shall terminate and liquidate in a manner consistent with the plan agreement unless the Plan is continued by a successor to the BWL.

Note 2 - Summary of Significant Accounting Policies

Accounting and Reporting Principles

The Plan follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Basis of Accounting

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due pursuant to legal requirements.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Report Presentation

This report includes the fund-based statements of the Plan.

Investment Valuation and Income Recognition - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

Purchases and sales of investments are recorded on a trade-date basis.

Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

Expenses - Substantially all costs and expenses incurred in connection with the operation and administration of the Plan are paid by the BWL, the plan sponsor. The Plan pays all transaction expenses incurred in connection with the investment accounts, which are netted with investment income.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Funding Policy - The BWL adopted a process for funding the retiree benefits using both a VEBA trust and, to the extent permitted by law, excess pension assets in the Defined Benefit Pension Plan. Additional contributions to the VEBA trust from the BWL operating funds to supplement Section 420 transfers will not exceed the recommended annual contribution amount required to cover current service of active participants and amortize the unfunded accrued liability over 30 years. The required contribution is based on a projected pay-as-you-go financing requirement with an additional amount to prefund benefits.

The BWL's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed
6/30/2013	\$ 13,994	\$ 14,045	100%
6/30/2014	9,202	9,268	101%
6/30/2015	5,765	9,671	168%

Funded Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost at June 30, 2015 and 2014 include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected healthcare trend rates ranging from 5.0 percent to 9.0 percent, and (c) amortization method level dollar over an open 30-year period.

Funding status and funding progress trend information is as follows (in thousands):

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	AAV as a Percentage of AAL
2/28/2013	\$ 123,195	\$ 207,864	\$ 84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,565	200,196	42,632	78.71%

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies (Continued)

Actuarial Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used range from 5.0 to 9.0 percent for the years ended June 30, 2015 and 2014.

Note 3 - Cash, Investments, and Fair Disclosure

The Lansing Board of Water and Light Retiree Benefit Plan and Trust has adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

The Plan is authorized through Public Act 149 of 1999 to invest in accordance with Public Act 314. Public Act 314 of 1965, as amended, allows the Plan to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan's deposits and investment policies are in accordance with PA 196 of 1997 and have authorized the investments according to Michigan PA 314 of 1965, as amended.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

The Plan's cash and investments are subject to several types of risk, which are examined in more detail below:

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are therefore not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Government bonds and notes	\$ 15,462,341	11.46 years
Corporate bonds and notes	21,269,571	13.89 years
Money market trust funds	6,051,856	Less than 1 year

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 2,469,542	AAA	S&P
Corporate bonds	7,891,448	AA+	S&P
Corporate bonds	448,070	AA	S&P
Corporate bonds	323,354	AA-	S&P
Corporate bonds	936,680	A+	S&P
Corporate bonds	1,686,646	A	S&P
Corporate bonds	2,216,285	A-	S&P
Corporate bonds	1,666,828	BBB+	S&P
Corporate bonds	1,284,231	BBB	S&P
Corporate bonds	861,822	BBB-	S&P
Corporate bonds	156,369	BB+	S&P
Corporate bonds	98,900	BB	S&P
Corporate bonds	261,306	BB-	S&P
Corporate bonds	63,744	B+	S&P
Corporate bonds	141,348	B	S&P
Corporate bonds	574,676	B-	S&P
Corporate bonds	117,710	CCC	S&P
Corporate bonds	70,612	D	S&P
Money market trust funds	6,051,856	Not rated	Not rated

Concentration of Credit Risk

The Board of Commissioners places no limit on the amount the Plan may invest in any one issuer.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Risks at June 30, 2014

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and, therefore, are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Government bonds and notes	\$ 16,284,339	11.46 years
Corporate bonds and notes	20,713,869	13.89 years
Money market trust funds	5,388,690	Less than 1 year

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Corporate bonds	\$ 2,592,281	AAA	S&P
Corporate bonds	7,599,714	AA+	S&P
Corporate bonds	409,881	AA	S&P
Corporate bonds	325,014	AA-	S&P
Corporate bonds	814,828	A+	S&P
Corporate bonds	1,459,545	A	S&P
Corporate bonds	2,435,470	A-	S&P
Corporate bonds	1,519,586	BBB+	S&P
Corporate bonds	1,243,225	BBB	S&P
Corporate bonds	847,165	BBB-	S&P
Corporate bonds	139,359	BB+	S&P
Corporate bonds	217,310	BB	S&P
Corporate bonds	171,619	BB-	S&P
Corporate bonds	48,487	B+	S&P
Corporate bonds	36,750	B	S&P
Corporate bonds	142,363	B-	S&P
Corporate bonds	645,767	CCC	S&P
Corporate bonds	65,505	D	S&P
Money market trust funds	5,388,690	Not rated	Not rated

Concentration of Credit Risk

The Board of Commissioners places no limit on the amount the Plan may invest in any one issuer.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 4 - Net Appreciation of Investments

The net (depreciation) appreciation of the Plan's investments is as follows:

	2015	2014
Investments at fair value as determined by quoted market price:		
Corporate bonds and notes	\$ (257,174)	\$ 451,415
Government bonds and notes	160,377	188,304
Equities	970,370	21,775,370
Alternative investments	24,418	40,441
Mutual funds	(247,912)	318,620
Total	\$ 650,079	\$ 22,774,150

Note 5 - Tax Status

The Plan is exempt under Internal Revenue Code Section 501(c)(9) and received an exemption letter as of February 9, 2000. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan.

Note 6 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Plan is currently evaluating the impact this standard will have on the financial statements when adopted, during the Plan's 2016 fiscal year.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2015 and 2014

Note 6 - Upcoming Accounting Pronouncements (Continued)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. This new accounting standard addresses reporting by postemployment benefit plans other than pensions (OPEB) that administer defined benefit OPEB benefits on behalf of governments. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. The provisions of this new standard are effective for the Plan's June 30, 2017 year end.

Required Supplemental Information

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Schedule of Funding Progress (in thousands)

Valuation Date	Actuarial Asset Value	AAL	UAAL	Funded Ratio
2/29/2008	\$ 57,246	\$ 236,102	\$ 178,856	24.25%
2/28/2009	45,320	256,888	211,568	17.64%
2/28/2010	76,117	252,142	176,025	30.19%
2/28/2011	100,604	260,097	159,493	38.68%
2/28/2012	110,029	245,418	135,389	44.83%
2/28/2013	123,195	207,864	84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,565	200,196	42,632	78.71%

AAL - Actuarial accrued liability (entry age normal level dollar)

UAAL - Unfunded actuarial accrued liability and negative UAAL indicate a funding excess.

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Schedule of Employer Contributions

(in thousands)

Fiscal Year Ended	Employer Contributions		Percentage of ARC Contributed
	Required	Actual	
6/30/2008	\$ 14,797	\$ 14,962	101%
6/30/2009	18,132	17,866	99%
6/30/2010	21,291	21,318	100%
6/30/2011	17,300	17,236	100%
6/30/2012	15,744	15,854	101%
6/30/2013	13,994	14,045	100%
6/30/2014	9,200	9,268	101%
6/30/2015	5,762	9,671	168%

ARC - Annual required contribution

**Lansing Board of Water and Light
Employees' Defined Contribution
Pension Plan**

**Financial Report
with Supplemental Information
June 30, 2015**

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

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Independent Auditor's Report

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
Lansing Board of Water and Light Employees'
Defined Contribution Pension Plan
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Lansing Board of Water and Light Employees' Defined Contribution Pension Plan (the "Plan") as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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. Those standards require that we plan and perform the audits 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 entity'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 entity'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.

To the Honorable Mayor, Members of
the City Council, and Commissioners
of the Board of Water and Light
Lansing Board of Water and Light Employees'
Defined Contribution Pension Plan

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Lansing Board of Water and Light Employees' Defined Contribution Pension Plan as of June 30, 2015 and 2014, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 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 supplemental 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lansing Board of Water and Light Employees' Defined Contribution Pension Plan's basic financial statements. The statement of changes in net position by fund is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The statement of changes in net position by fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of changes in net position by fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

August 28, 2015

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior two years:

	2015	2014	2013
Assets held in trust:			
Mutual funds	\$ 136,010,607	\$ 130,442,786	\$ 109,882,178
Stable value	31,844,948	33,607,203	32,243,585
Participant notes receivable and other	5,265,081	5,229,750	4,768,679
Net position	<u>\$ 173,120,636</u>	<u>\$ 169,279,739</u>	<u>\$ 146,894,442</u>
Changes in plan assets:			
Net investment income	\$ 7,317,020	\$ 23,453,570	\$ 16,035,621
Employer and participant contributions	6,893,841	6,521,703	7,889,794
Benefits paid to participants	(10,451,713)	(7,645,116)	(9,097,209)
Loan defaults and other increases	81,749	55,140	45,192
Changes in net position	<u>\$ 3,840,897</u>	<u>\$ 22,385,297</u>	<u>\$ 14,873,398</u>

During fiscal year 2015, net investment income was \$7.3 million.

Investment Objectives

The principal purpose of the Plan is to provide benefits at a normal retirement age. The Plan's funds are selected to optimize return on a risk-adjusted basis within each asset class, to provide an opportunity to create a well-diversified portfolio, to control administrative and management cost, and to comply with relevant Michigan and federal law.

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Management's Discussion and Analysis (Continued)

The Plan allows each participant to direct the investment of the funds in his or her plan accounts. The Lansing Board of Water and Light (the "BWL") will offer various investment options (consistent with the investment policy statement), among which participants may choose to invest their respective interests in the Plan. The BWL periodically reviews the performance of investment options available to participants to ensure that each such option is meeting its investment objectives.

Investment Results

The fiscal year ended June 30, 2015 saw a net investment income of \$7.3 million. Total assets held in trust at the end of the fiscal year were \$173.1 million.

Future Events

The BWL has no current plans to revise the terms of its defined contribution pension plan.

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Heather Shawa-Decook, Chief Financial Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Net Position

	June 30	
	2015	2014
Assets		
Participant-directed investments (Note 1):		
Mutual funds:		
Money market	\$ 228,799	\$ 117,793
Bond and equity funds	17,657,647	16,556,877
Stock funds	64,962,538	60,617,315
Balanced funds	30,214,407	29,495,580
Growth funds	6,269,076	6,144,760
International funds	16,678,140	17,510,461
Total mutual funds	136,010,607	130,442,786
Stable value	31,844,948	33,607,203
Self-directed brokerage account	1,376,730	1,147,041
Total participant-directed investments	169,232,285	165,197,030
Participant notes receivable	3,888,351	4,082,709
Net Position	<u>\$ 173,120,636</u>	<u>\$ 169,279,739</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position

	Year Ended June 30	
	2015	2014
Increase		
Investment income:		
Net appreciation in fair value of investments	\$ 21,201	\$ 17,907,856
Dividend income	7,295,819	5,545,714
Total investment income	7,317,020	23,453,570
Employer contributions (Note 1)	5,548,360	5,467,824
Participant rollover contributions	1,345,481	1,053,879
Interest from participant notes receivable	155,010	155,997
Other	152,128	114,992
Total increase	14,517,999	30,246,262
Decrease		
Benefits paid to participants	10,451,713	7,645,116
Loan defaults	125,254	119,694
Participants' note and administrative fees	100,135	96,155
Total decrease	10,677,102	7,860,965
Change in Net Position	3,840,897	22,385,297
Net Position		
Beginning of year	169,279,739	146,894,442
End of year	<u>\$ 173,120,636</u>	<u>\$ 169,279,739</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 1 - Description of the Plan

The following description of Lansing Board of Water and Light Employees' Defined Contribution Pension Plan (the "Plan") provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

General - The Plan was established by the Lansing Board of Water and Light (the "BWL") in 1997 under Section 5-203 of the City Charter. Prior to its establishment, the BWL sponsored a defined benefit plan (Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan) in which substantially all employees of the BWL were participants. Effective December 1, 1997, all active participants of the defined benefit plan were required to make an irrevocable choice to either remain in the defined benefit plan or move to the newly established defined contribution plan (Lansing Board of Water and Light Employees' Defined Contribution Plan). Those participants who elected to move to the defined contribution plan received lump-sum distributions from the defined benefit plan, which were rolled into their accounts in the new defined contribution plan. Of the 760 active participants who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan. As a result of this action, effective December 1, 1997, the board of commissioners transferred \$75,116,470 to the newly established defined contribution plan, reflecting the plan participants' accumulated benefits as of said date.

ICMA-RC performs administrative duties associated with the Plan in its role as plan administrator.

Contributions - For employees hired before January 1, 1997, the BWL is required to contribute 15 percent of the employees' compensation. For employees hired on or after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute an additional 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees. The board of commissioners of the Board of Water and Light - City of Lansing may amend the Plan's provisions and contribution requirements.

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Description of the Plan (Continued)

Participant Accounts - Each participant's account is credited with the participant's rollover contributions and withdrawals, as applicable, and allocations of the BWL's contributions and plan earnings. Allocations are based on participants' earnings or account balances, as defined in the plan document. Forfeited balances of terminated participants' nonvested accounts are used to reduce future BWL contributions. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

As of June 30, 2015, there were 878 participants in the Plan, of which 725 were active employees. As of June 30, 2014, there were 822 participants in the Plan, of which 628 were active employees.

Vesting - Participants become vested in the BWL contribution and related earnings after completing three years of service, at a rate of 25 percent each year. Participants become fully vested after six years of service.

Investment Options - Participants may direct contributions in any of the following investment options, which are administered by ICMA-RC. Since ICMA-RC is the custodian as defined by the Plan, transactions in the ICMA funds qualify as transactions with parties in interest.

Stable Value - Seeks safety of principal, adequate liquidity, and returns superior to shorter maturity alternatives by actively managing a diversified portfolio of assets issued by highly rated financial institutions and corporations as well as obligations of the U.S. government or its agencies.

Balanced - Seeks both current income and capital appreciation by investing in a combination of stocks, bonds, and money market instruments.

Growth - Seeks long-term capital appreciation by investing primarily in equity securities of companies with above-average growth prospects. Current income is a secondary concern.

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 1 - Description of the Plan (Continued)

International - Seeks long-term capital appreciation by investing primarily in equity securities of issuers located outside of the U.S.

Stock Funds - Seeks long-term growth through capital gains, although historically, dividends have been an important source of total return. These funds primarily invest in the common stocks of companies based in the United States. There are many options for diversification within this category.

Bond and Equity Funds - Seeks to maximize current income with capital appreciation as a secondary consideration by investing primarily in debt securities issued by the U.S. government or its agencies and domestic and foreign corporations. They are not fixed-income investments. Even when a mutual fund's portfolio is composed entirely of bonds, the fund itself has neither a fixed yield nor a contractual obligation to give investors back their principal at some later maturity date - the two key fixed characteristics of individual bonds.

Self-directed Brokerage Account - Participants with a minimum account balance of \$35,000 may transfer from their fund accounts a minimum of \$5,000 to a self-directed brokerage account. Eligible investments are equity securities traded on U.S. exchanges valued at greater than \$5 and over 400 mutual funds from 18 investment management companies. Participants pay a one-time set-up fee of \$50.

Participant Notes Receivable - Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum of the lesser of \$50,000 or 50 percent of their account balances. Notes receivable are treated as transfers between the investment fund and the notes receivable fund. Note terms range from one to five years or up to 20 years for the purchase of a primary residence. The notes receivable are secured by the balance in the participant's account and bear interest at a rate commensurate with prevailing rates as determined periodically by the plan administrator. Principal and interest are paid ratably through payroll deductions.

Payment of Benefits - Upon termination of service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or choose from a variety of periodic payment options.

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Plan have been prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Valuation of Investments and Income Recognition - The investments are stated at market value based on closing sales prices reported on recognized securities exchanges on the last business day of the year, or for listed securities having no sales reported, and for unlisted securities, upon the last reported bid prices on that date. The mutual funds are valued at quoted market prices, which represent the net asset values of shares held by the Plan at year end.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded on the ex-dividend date.

Participant Notes Receivable - Participant notes receivable are recorded at their unpaid principal balances plus any accrued interest. Participant notes receivable are written off when deemed uncollectible.

Expenses - The Plan's expenses are paid by the BWL as provided by the plan document.

Regulatory Status - The Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Investments

The pension trust fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan's deposits and investment policies are in accordance with PA 196 of 1997 and has authorized the investments according to Michigan PA 314 of 1965, as amended.

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits - At the end of the year, the Plan has no bank deposits.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 136,010,607	Not rated	Not rated
Stable value	31,844,948	AA	S&P

Risks at June 30, 2014

Custodial Credit Risk of Bank Deposits - At the end of the year, the Plan has no bank deposits.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 130,442,786	Not rated	Not rated
Stable value	33,607,203	AA	S&P

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

**Notes to Financial Statements
June 30, 2015 and 2014**

Note 4 - Plan Termination

Although it has not expressed any intention to do so, the BWL has the right under the Plan to terminate the Plan subject to the provisions set forth in Article 12 of the Plan. In the event of any termination of the Plan, or upon complete or partial discontinuance of contributions, the accounts of each affected participant shall become fully vested.

Note 5 - Tax Status

The Plan is a prototype plan. The prototype plan has received a favorable opinion letter from the Internal Revenue Service (IRS) indicating that the prototype plan, as designed, is qualified for federal income tax-exempt status. The Plan has not individually sought its own determination letter.

Note 6 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Plan is currently evaluating the impact this standard will have on the financial statements when adopted, during the Plan's 2016 fiscal year.

Supplemental Information

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position by Fund

	Money Market		Bond Funds	
	Year Ended June 30		Year Ended June 30	
	2015	2014	2015	2014
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 410	\$ 485	\$ (845,789)	\$ 449,026
Interest income	-	-	-	-
Dividend income	-	-	813,414	555,414
Employer contributions	13,977	13,731	477,593	487,362
Participant rollover contributions	-	-	25,541	33,403
Loan repayments	21,638	4,550	197,715	173,174
Interest from participant notes receivable	-	-	-	-
Other	-	-	(2,216)	13
Total increase, net of realized and unrealized gains and losses	36,025	18,766	666,258	1,698,392
Decrease				
Benefits paid to participants	150,217	64,086	660,545	536,673
Loans to participants	2,210	3,572	197,409	169,585
Loan defaults	-	-	-	-
Participants' note and administrative fees	327	972	24,358	21,360
Total decrease	152,754	68,630	882,312	727,618
Net (Decrease) Increase Prior to Interfund Transfers	(116,729)	(49,864)	(216,054)	970,774
Interfund Transfers	227,735	(250,764)	1,316,824	(852,733)
Net Increase (Decrease)	111,006	(300,628)	1,100,770	118,041
Net Position				
Beginning of year	117,793	418,421	16,556,877	16,438,836
End of year	<u>\$ 228,799</u>	<u>\$ 117,793</u>	<u>\$ 17,657,647</u>	<u>\$ 16,556,877</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position by Fund (Continued)

	Stock Funds		Balanced Funds	
	Year Ended June 30		Year Ended June 30	
	2015	2014	2015	2014
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 530,586	\$ 9,532,529	\$ (81,064)	\$ 3,198,720
Interest income	-	-	-	-
Dividend income	5,067,314	3,874,276	972,450	558,296
Employer contributions	1,689,400	1,752,951	1,652,808	1,375,608
Participant rollover contributions	246,359	100,790	643,541	197,557
Loan repayments	635,470	602,678	426,321	349,248
Interest from participant notes receivable	-	-	-	-
Other	87	5	40,575	65
	<u>8,169,216</u>	<u>15,863,229</u>	<u>3,654,631</u>	<u>5,679,494</u>
Total increase, net of realized and unrealized gains and losses				
Decrease				
Benefits paid to participants	3,269,915	2,539,594	1,658,124	996,083
Loans to participants	496,175	634,522	353,843	367,726
Loan defaults	-	-	-	-
Participants' note and administrative fees	29,869	31,744	14,930	12,891
	<u>3,795,959</u>	<u>3,205,860</u>	<u>2,026,897</u>	<u>1,376,700</u>
Total decrease				
Net (Decrease) Increase Prior to Interfund Transfers	4,373,257	12,657,369	1,627,734	4,302,794
Interfund Transfers	<u>(28,034)</u>	<u>(3,657,845)</u>	<u>(908,907)</u>	<u>4,798,682</u>
Net Increase (Decrease)	4,345,223	8,999,524	718,827	9,101,476
Net Position				
Beginning of year	<u>60,617,315</u>	<u>51,617,791</u>	<u>29,495,580</u>	<u>20,394,104</u>
End of year	<u>\$ 64,962,538</u>	<u>\$ 60,617,315</u>	<u>\$ 30,214,407</u>	<u>\$ 29,495,580</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position by Fund (Continued)

	Growth Funds		International Funds	
	Year Ended June 30		Year Ended June 30	
	2015	2014	2015	2014
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 115,442	\$ 1,053,965	\$ (279,065)	\$ 3,063,853
Interest income	-	-	-	-
Dividend income	-	-	432,105	397,037
Employer contributions	568,790	588,556	514,289	535,453
Participant rollover contributions	71,130	9,045	44,996	31,217
Loan repayments	235,807	138,956	201,380	168,865
Interest from participant notes receivable	-	-	-	-
Other	-	-	50	22
Total increase, net of realized and unrealized gains and losses	991,169	1,790,522	913,755	4,196,447
Decrease				
Benefits paid to participants	160,116	266,068	605,388	712,842
Loans to participants	280,581	355,677	205,341	154,955
Loan defaults	-	-	-	-
Participants' note and administrative fees	3,972	4,010	15,306	14,078
Total decrease	444,669	625,755	826,035	881,875
Net (Decrease) Increase Prior to Interfund Transfers	546,500	1,164,767	87,720	3,314,572
Interfund Transfers	(422,184)	(756,292)	(920,041)	(1,080,852)
Net Increase (Decrease)	124,316	408,475	(832,321)	2,233,720
Net Position				
Beginning of year	6,144,760	5,736,285	17,510,461	15,276,741
End of year	<u>\$ 6,269,076</u>	<u>\$ 6,144,760</u>	<u>\$ 16,678,140</u>	<u>\$ 17,510,461</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position by Fund (Continued)

	Total Mutual Funds	
	Year Ended June 30	
	2015	2014
Increase		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ (559,480)	\$ 17,298,578
Interest income	-	-
Dividend income	7,285,283	5,385,023
Employer contributions	4,916,857	4,753,661
Participant rollover contributions	1,031,567	372,012
Loan repayments	1,718,331	1,437,471
Interest from participant notes receivable	-	-
Other	38,496	105
	<u>14,431,054</u>	<u>29,246,850</u>
Total increase, net of realized and unrealized gains and losses	14,431,054	29,246,850
Decrease		
Benefits paid to participants	6,504,305	5,115,346
Loans to participants	1,535,559	1,686,037
Loan defaults	-	-
Participants' note and administrative fees	88,762	85,055
	<u>8,128,626</u>	<u>6,886,438</u>
Total decrease	8,128,626	6,886,438
Net (Decrease) Increase Prior to Interfund Transfers	6,302,428	22,360,412
Interfund Transfers	<u>(734,607)</u>	<u>(1,799,804)</u>
Net Increase (Decrease)	5,567,821	20,560,608
Net Position		
Beginning of year	<u>130,442,786</u>	<u>109,882,178</u>
End of year	<u>\$ 136,010,607</u>	<u>\$ 130,442,786</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position by Fund (Continued)

	Stable Value Fund		Brokerage Account	
	Year Ended June 30		Year Ended June 30	
	2015	2014	2015	2014
Increase				
Investment income:				
Net appreciation in fair value of investments	\$ 580,681	\$ 609,278	\$ -	\$ -
Interest income	-	-	10,536	160,691
Dividend income	-	-	-	-
Employer contributions	631,503	714,164	-	-
Participant rollover contributions	313,914	681,866	-	-
Loan repayments	177,673	233,842	-	-
Interest from participant notes receivable	-	-	-	-
Other	113,632	114,887	-	-
Total increase, net of realized and unrealized gains and losses	1,817,403	2,354,037	10,536	160,691
Decrease				
Benefits paid to participants	3,947,408	2,529,770	-	-
Loans to participants	136,331	122,602	-	-
Loan defaults	-	-	-	-
Participants' note and administrative fees	11,373	11,100	-	-
Total decrease	4,095,112	2,663,472	-	-
Net (Decrease) Increase Prior to Interfund Transfers	(2,277,709)	(309,435)	10,536	160,691
Interfund Transfers	515,454	1,673,053	219,153	126,751
Net Increase (Decrease)	(1,762,255)	1,363,618	229,689	287,442
Net Position				
Beginning of year	33,607,203	32,243,585	1,147,041	859,599
End of year	<u>\$ 31,844,948</u>	<u>\$ 33,607,203</u>	<u>\$ 1,376,730</u>	<u>\$ 1,147,041</u>

Lansing Board of Water and Light Employees' Defined Contribution Pension Plan

Statement of Changes in Net Position by Fund (Continued)

	Participant Notes Receivable		Total	
	Year Ended June 30		Year Ended June 30	
	2015	2014	2015	2014
Increase				
Investment income:				
Net appreciation				
in fair value of investments	\$ -	\$ -	\$ 21,201	\$ 17,907,856
Interest income	-	-	10,536	160,691
Dividend income	-	-	7,285,283	5,385,023
Employer contributions	-	-	5,548,360	5,467,825
Participant rollover contributions	-	-	1,345,481	1,053,878
Loan repayments	(1,896,004)	(1,671,313)	-	-
Interest from participant notes receivable	155,010	155,997	155,010	155,997
Other	-	-	152,128	114,992
Total increase, net of realized and unrealized gains and losses	(1,740,994)	(1,515,316)	14,517,999	30,246,262
Decrease				
Benefits paid to participants	-	-	10,451,713	7,645,116
Loans to participants	(1,671,890)	(1,808,639)	-	-
Loan defaults	125,254	119,694	125,254	119,694
Participants' note and administrative fees	-	-	100,135	96,155
Total decrease	(1,546,636)	(1,688,945)	10,677,102	7,860,965
Net (Decrease) Increase Prior to Interfund Transfers	(194,358)	173,629	3,840,897	22,385,297
Interfund Transfers	-	-	-	-
Net Increase (Decrease)	(194,358)	173,629	3,840,897	22,385,297
Net Position				
Beginning of year	4,082,709	3,909,080	169,279,739	146,894,442
End of year	<u>\$ 3,888,351</u>	<u>\$ 4,082,709</u>	<u>\$ 173,120,636</u>	<u>\$ 169,279,739</u>

STATUS OF MANAGEMENT RESPONSES TO AUDIT REPORTS AS OF 7/31/15

Open Issues

- #12 Records Retention Management Audit (March 2014) - Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.
- Status: Regarding I-9 forms, the Human Resources Department is in the process of ensuring that they are on file for all active employees. This project is ongoing with an expected completion date of 12/31/15. During July, 44% of needed I-9 forms were collected. Concerning the appropriate retention schedule for the asbestos bills of lading (a.k.a. asbestos manifests), it will be reviewed and updated as part of the overall review of the Record Retention Schedule. Enterprise Content Management anticipates an updated master document will be sent for executive management review by October 2015. Approval by the State of Michigan is expected in early 2016.
- #13 Records Retention Management Audit (March 2014) – The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.
- Status: Enterprise Content Management is reviewing the existing Record Retention Schedule with the appropriate departments and cataloging all proposed revisions. Enterprise Content Management anticipates an updated master document will be sent for executive management review by October 2015. Approval by the State of Michigan is expected in early 2016.
- #15 Accounts Payable Audit (April 2014) - The audit revealed the existence of more than 14,000 vendor master entries. Within these entries are duplicates and vendors that have been blocked. Further review and analysis was recommended.
- Status: Accounts Payable (AP) is focusing their efforts on confirming information for current payees (including W-9 forms) and working jointly with Purchasing in identifying new vendors to set up as new payees only when warranted. AP is also working jointly with the IT Department in determining which vendor entries should be retained or blocked on SAP due to inactivity.
- #16 Accounts Payable Audit (April 2014) - The Goods Receipt/Invoice Receipt account balance is higher than previous years. Internal Audit recommends that management focus on resolving mismatched items in this account and clear unresolved documents older than a particular age.
- Status: To reduce the recurrence of these types of issues, Accounts Payable (AP) has developed a refresher training course on the system receiving function for presentation to all users and, also, anticipates automated email notification becoming available in FY16. Also, to address the current account balance and clear older items, AP is working with departments to resolve goods and invoice receipts older than 15 months and on reducing the occurrence of invoices 45 days or older. By their nature, the occurrence of these events and the resulting efforts to address them will be ongoing with no specific, final completion date, although it is anticipated that any increase in frequency or amount will be related to normal seasonal activity and not to a lack of oversight and effort to resolve them.
- #17 Close the Books Audit (August 2014) - The Internal Auditor determined that accounting procedures should be updated and stored in a central location, with consideration given to the use of a general accounting manual.
- Status: General Accounting is continuing to work on centralizing and updating all current procedures. Updates to the general accounting manual are approximately 50% complete, however, General Accounting's work efforts on these projects have been delayed due to fiscal year end work demands, along with unanticipated staffing changes. Changes are expected to be complete by 3/31/16.
- #20 Materials Inventory Management Audit (January 2015) - The Internal Auditor found access to two inventory related SAP system transaction types to be excessive.

Status: The removal of unnecessary access has been requested of the IT Department by Purchasing & Warehousing (PW). PW has also taken it upon themselves to develop an additional control, in the form of a periodic report run to monitor a particular situation where duties cannot always be adequately segregated due to limited availability of backup personnel in non-routine instances. In addition, PW, with the assistance from Internal Control, is developing a process to ensure that outdated and inappropriate user access is identified and corrected on an ongoing basis. To date, a draft report has been developed by Internal Control and is being reviewed by PW. Once finalized, this review will be conducted semi-annually.

- #23 Annual Projects Management Audit (July 2015) **NEW** - Internal Audit determined that the project close-out process did not always include a documented narrative explaining why actual costs exceeded estimates.

Status: The project close-out process is being enhanced by consistently providing a narrative explanation when project costs exceed estimates by a threshold of 15% and \$50,000. Implementation by the Customer Projects and Electrical System Integrity areas is complete. The Water Distribution area estimates an implementation date of 10/1/15.

- #24 Annual Projects Management Audit (July 2015) **NEW** - Internal Audit determined that the project close-out process did not always identify use of contingency amounts.

Status: The project close-out process is being enhanced by consistently identifying use of contingency amounts when project costs exceed estimates by a threshold of 15% and \$50,000. Implementation by the Customer Projects and Electrical System Integrity areas is complete. The Water Distribution area estimates an implementation date of 10/1/15.

Closed Issues (since last report of 5/31/15)

- #18 Materials Inventory Management Audit (January 2015) - Internal Audit's physical inventory counts at the main warehouse revealed some differences from book balances.

Status: Purchasing & Warehousing (PW) has, and continues to, emphasize to PW staff and user departments the importance and criticality in completing the proper paperwork and forms. PW has also initiated relationship-building efforts with their user departments, to enhance communications and accountability, and explored and implemented other options to enhance control over inventory. PW continues to count high-dollar, fast moving inventory items more frequently than once a year and will begin to count yard items on a monthly basis. Within the past year, some yard items, such as transformers, have been moved to a secured offsite warehouse. Possible future technology enhancements to further improve the process will be supported with a business justification and subject to the capital project approval process.

- #19 Materials Inventory Management Audit (January 2015) - Internal Audit noted issues at two satellite inventory locations and recommended tighter controls at satellite inventory locations in general, citing the alternative of consolidation of inventories at the central warehouse.

Status: Satellite inventory is no longer being maintained at the REO and Eckert locations. Inventory at the Dye and Erickson plants has been reduced to a few critical items.

- #21 Special BOC Requested Audit (April 2015) - The Internal Auditor found that more clarity is needed in Board policy regarding the reporting of capital budget variances. Specifically, with regard to a clarification from the Board of Commissioners as to when, for a multi-year project in particular, a budget variance exceeding the defined threshold should be reported to and approved by the Board.

Status: Board Policy 15-02 was amended by Board Resolution 2015-07-05, which provides the necessary clarification.

- #22 Special BOC Requested Audit (April 2015) - The Internal Auditor found that the former General Manager's procurement card expenses were not adequately reviewed or supported and that requirements could be clarified.

Status: Board Policy 7-05 was amended by Board Resolution 2015-07-04, which provides the necessary clarification.

**Status of Responses to Audit
Issues**

as of 7/31/15

Area	# of Audit Issues	Estimated Completion Date	Description of Work in Progress
Accounts Payable	2	10/1/2015	Cleaning up inactive vendor records
Construction Project Mgmt.	2	10/1/2015	Enhancing project close-out procedures
Warehousing	1	12/31/2015	Report for keeping computer access updated
General Accounting	1	3/31/2016	Creating accounting manual
Record Retention	2	3/31/2016	Updating record retention schedule

Internal Audit Process

Presented by: Phil Perkins
Director of Internal Audit

Process Events/Milestones

- Preliminary Risk Assessment/Scoping
 - Based on prior audit(s) if available, and current events that may change the risk profile.
 - If no prior audits were performed at BWL, review similar audits and/or audit programs from other companies, and/or have meetings with responsible personnel at BWL to help develop the scope and objectives for the audit.

Process Events/Milestones, (2)

- Audit Announcement/Opening Conference
 - Purpose is to:
 - Announce the audit that will start as of the date of the opening conference.
 - State the tentative objectives of the audit.
 - Obtain management agreement with objectives as written, or agree upon whatever changes are suggested.
 - Inform the group that a draft audit program, detailing the steps to be performed in satisfying the audit objectives, will be available shortly.

Process Events/Milestones (3)

- Fieldwork Phase
 - First event - Audit Program discussion meeting.
 - First purpose is to discuss the draft program steps and either agree or suggest changes.
 - Second purpose is to identify documentation needs, tests and observations that will need to be performed for each step to satisfy the audit objectives. **Sufficient documentation to support conclusions is key.**
 - Next event(s) – Perform the audit work needed to satisfy the objectives:
 - Analysis of documents, observations and tests.
 - Meetings as needed to discuss questions on preliminary results.
 - Draft preliminary issues and discuss informally with the responsible manager(s) and Internal Control.

Process Events/Milestones (4)

- Pre-Closing Meeting
 - Purposes are to:
 - Discuss and agree upon the draft issues at the manager/supervisor level, i.e., validate the findings.
 - If there are disagreements, discuss them in terms of additional testing or observation that may be needed, re-wording the issue or recommendation, etc.
 - Resolve any open matters prior to the closing conference.

Process Events/Milestones (5)

- Closing Conference
 - Purpose is to present the issues and recommendations to the CFO and other senior staff as appropriate, and as modified during and after the pre-closing meeting.
 - Only minor (if any) changes should be needed at this point if the pre-closing meeting and aftermath accomplished the purposes intended.
 - Internal Auditor will notify the group that the next step is to issue the draft audit report for review and management responses.

Process Events/Milestones (6)

- Audit Reporting
 - Draft Audit Report: Issued with a 30-day window to provide formal management responses.
 - The time window should be used as needed for additional discussion regarding the reporting language and suggested changes if any.
 - Internal Audit appreciates being afforded a review of the draft responses before they are approved/signed by the (Interim) General Manager.
 - Draft Audit Report is exempted from FOIA requests via Michigan law (MCL 15.243 (1) (y)).

Process Events/Milestones (7)

- Audit Reporting, cont'd
 - Final Audit Report
 - Contains issues, recommendations and management responses.
 - Contains an Executive Summary and Detailed Report.
 - Is sent to the Board of Commissioners with limited internal distribution (CFO, Director or Executive Director of audited activity, Manager of audited activity, Corporate Secretary, Internal Control).
 - Final reports are subject to FOIA requests.

Process Events/Milestones (8)

- Audit Follow-up
 - IA Open Issues Listing
 - Internal Auditor refreshes the listing with the most recent audit issues for which management responses have been provided, and for which tracking of open actions is needed.
 - Not all issues that will be followed up in a future audit merit continuous tracking on the list. Example: An issue for which the corrective action was completed during the audit.

Report Number: 2015-xx

-
- **Performance¹ Audit**
- **Health & Drug Benefit Plans Management**
-

Brief Description of Audited Activity

- The Lansing Board of Water & Light (LBWL) provides certain health and prescription drug benefits to employees and their eligible dependents, and to qualified retirees and their eligible dependents. A total of \$17.1 million was incurred in FY 2014 for health care, prescription drugs and related expenses, with the costs divided about evenly between active employees and retirees.

- **AUDIT OBJECTIVE 1:**

- Determine whether claims and invoice review processes are adequate to ensure that only proper and authorized costs are charged and reimbursed for health and drug benefit services.

Audit Conclusion - Auditor's Opinion on the Objective

- **AUDIT CONCLUSION:**

- Claims and invoice review processes were xxx xxx xxx xxx.

- **Finding 1:**

- There is a need for xxx xxx xxx xxx xxx.

- **Recommendation 1:**

- Management should:
 1. Xxx xxx xxx xxx.
 2. Xxx xxx xxx xxx.

- **MANAGEMENT RESPONSE:**

- The BWL Benefits Administrator has xxx xxx xxx xxx xxx xxx.

FY2016 Audit Plan- Request for Change Approval

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 Hiring Process	400
IT – Manage Changes	400
Other Engagements:	
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	<u>2,600</u>