

AGENDA

FINANCE COMMITTEE MEETING

September 9, 2014

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 7/8/14

2. Presentation of Audited Financial Statements

Adjourn

FINANCE COMMITTEE

July 8, 2014

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 8:23 p.m. on Tuesday, July 8, 2014.

Finance Committee Chairperson Margaret Bossenbery called the meeting to order and asked the Corporate Secretary to call the roll. The following members were present: Commissioners Margaret Bossenbery, Tony Mullen, Dennis M. Louney; Also present Commissioners David Price, Tracy Thomas, Cynthia Ward and Sandra Zerkle.

Absent: None

Public Comments

Chuck Slammer, Lansing, MI, spoke in opposition of the proposed rate increase.

Approval of Minutes

Motion by Commissioner Price, seconded by Commissioner Louney to approve the Finance Committee meeting minutes of May 21, 2014.

Action: Carried Unanimously

Finance Chair changed the order of the Agenda.

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

General Manager Lark introduced external auditor Doug Rober, Partner with Plante Moran (P&M) and Marie Stiegel, Manager with P&M, who reviewed and presented the Auditing Process.

Mr. Rober said this is the beginning of the audit process and part of that process is to meet and present governance with an overall analysis of the audit plan. This also provides an opportunity for the Commissioners to provide any insight on whether there is anything specific that they are aware of or would like us to focus our time on in addition to what is planned in the audit.

Mr. Rober stated that the scope of the Audit that will be performed is to express an opinion of the financial statements of the Board as well as each of the pension plans. He stated there will also be a management letter or significant deficiency letter if required at the end of the engagement, ultimately issuing an AU260 communication letter. He said their focus is to perform procedures on the financial information that is the responsibility of the management and the Board. He stated they will be getting together with the Board again to discuss the results. One of the required communications is a letter summarizing how the audit went and what the findings are, and that is in addition to the report letter pertaining to the financial statements. If there were financial matters found, that warranted the Board's attention that would also be communicated in a letter.

Ms. 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

Commissioner Price questioned the status of the pension plans with all that is going on in the economy, and wanted some reassurance that the Board of Water & Light is in good shape. In response Ms. Stiegel stated through GASB 67, you will have some disclosures that provide a measurement of that.

Commissioner Louney questioned if Plante Moran did operational audit for utilities. In response Mr. Rober stated that they do have experience in that area. He stated when performing an operational audit, they listen to the scope of what an organization wants them to focus on, and then a specific audit is designed against those particulars.

Mr. Rober asked the Board of Commissioners if there were any areas of concern that warrant attention or additional procedures.

In response to Mr. Rober’s question the Board of Commissioners stated no areas of concern.

Request to Publish Notice Re: Proposed Rate Changes

General Manager Lark said what is before you is a resolution a Resolution requesting approval to set a Public Hearing date of September 18, 2014 on the rate recommendations. A notice would be published in the newspaper by August 27th. There would be a Committee of the Whole of meeting on September 9, 2014, in which we would give you embellished upon, as well as refined documents regarding the rate changes, so that you can have a good idea of what we are going to put forward at the Public Hearing. The Board would meet on September 23, 2014 to decide on whether or not to invoke the rate increase.

General Manager Lark reviewed the Impact of Proposed Rates Increases. He said that the proposed rate increases are Electric 7%, Water 9%, Steam 9% and Chilled Water 3%. What this increase would do is bring us a net income of approximately \$8M. If we are to have a return on assets on 6.18% as the Board instructed back in 2008, that net income would be \$33M. So you can see the return on assets with these increases for a full year would amount to 1.12% return on assets. The return on assets is an important figure, the money that we use to keep our plants up, refurbish, and take of the depreciation that we have at the Board of Water & Light. Without the increases, the net income becomes (\$11M).

General Manager Lark reviewed the following:

Effect of All Proposed Rate Changes on a Typical Monthly Residential Electric Bill Using 550 kWh of Electricity Per Month

ELECTRIC:		6/1/2014	11/1/2014
Service Charge (per month)		\$8.10	\$10.00
Renewable Energy Plan		\$2.50	\$0.75
Commodity (per kWh) 1st 500 kWh		\$0.0937	\$0.1001 -----7% increase----->
Commodity (per kWh) Excess kWh		\$0.0989	\$0.1056 -----7% increase----->
ECA		\$0.022095	\$0.022095
Energy Optimization		\$0.001853	\$0.001853
Estimated Monthly Use	550 kWh		
Service Charge		\$8.10	\$10.00
Renewable Energy Plan		\$2.50	\$0.75
Commodity		\$ 64.97	\$ 68.50
Total Bill		\$75.57	\$79.25
		Increase --->	\$ 3.69
		Increase %--->	4.88%

Effect of a 9% Rate Increase on a Typical Monthly Residential Water Bill Using 6 ccf of Water Per Month

WATER:	6/1/2014	----9.0% increase---->	11/1/2014
Service Charge (per month)	\$11.19		\$12.20
Commodity (per ccf)	\$2.56		\$2.79
PCA	\$0.128		\$0.128
Estimated Monthly Use	4,500 gallons 6 ccf		4,500 gallons 6 ccf
Service Charge	\$ 11.19		\$ 12.20
Commodity	\$ 16.13		\$ 17.51
Total Bill	\$ 27.32		\$ 29.71
		Increase --->	\$ 2.39
		Increase %---	8.75%

General Manager Lark stated that the Board should strongly consider approving a rate increase. Among the reasons is in the last 2 years, we have not had a rate increase and during that time there has been inflation. Over the last 2 years, there has been roughly 6% increase in inflation and that is certainly a contender for reasons for a rate increase. There are expenses related to hardening our system for the storm (new hires, tree trimming expense) and the Return on Equity that is now 6.1%.

General Manager Lark respectfully requested that the Finance Committee forward the proposed Resolution setting a Public Hearing for September 18, 2014 to the full Board for consideration.

Motion by Commissioner Price, seconded by Commissioner Mullen to forward the proposed Resolution to set a Public Hearing to the full Board for consideration.

Action: Motion Carried

Internal Audit Update

Internal Auditor Phil Perkins, presented an overview of :

Internal Auditor Status Update

- FY 2014 Audit Plan Progress Report
- Proposed FY 2015 Audit Plan
- Other Upcoming Items

FY 2014 Audit Plan Progress Report

Engagement Completed:

1. Fuel Procurement Audit
2. Records Retention Audit
3. Accounts Payable Audit
4. Close the Books Audit – complete; report to be issued shortly.
5. Surprise Cash Counts (2)
6. Time Reporting Reviews

Engagement in Progress:

1. Software Licensing Compliance Audit—fieldwork about complete; report to be issued in August.
2. Draft Report to be issued shortly; audit 95% complete.

Proposed FY2015 Audit Plan

Basic for plan:

1. Risk assessments and ratings for each of 100-plus auditable activities at BWL.
2. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
3. Review and input by management.
4. Selection of the top audit candidates based on (1) through (3) above.

Proposed FY 2015 Audit Plan

Planned Audits:	Estimated Hours
Materials Inventory Management	400
Engineering Services – Annual Projects	400
Health Insurance & Prescription Drug Plans	400
Follow-up on Post-Outage Recommendations	400
IT – Payment Card Industry (PCI) Compliance	300
IT – Management of Non-Desktop Field Devices	300
Other Engagements:	
Surprise Cash Counts (2)	40
Time Reporting Reviews (2)	160
IT Risk Assessment (continued from FY2014)	100
Potential Consulting or Other Engagement	100
Total Estimated Hours	<u>2,600</u>

Motion by Commissioner Mullen, seconded by Commissioner Louney to approval to adopt the Audit Plan.

Action: Motion Carried

Motion by Commissioner Mullen, seconded by Commissioner Price, to maintain the Internal Audit Charter as currently written.

Action: Carried Unanimously

Internal Auditor Perkins informed the Committee that he recently made some changes to the Internal Auditing procedures and would provide the Commissioners with an electronic list of the changes.

Finance Chair Bossenbery introduced a proposed policy for the Finance Committee to take a look at, and consider forwarding to the full Board for consideration and approval. Chair Bossenbery stated that we get Audit reports from Mr. Perkins periodically and part of those audits include actions from management that need to be taken care of. There is not a formalized procedure for management to get back with Mr. Perkins in response to the completion of actions and recommendations. Mr. Perkins has drafted a procedure, so that he has a tracking system to ensure implementation of actions, thus a policy.

Mr. Perkins stated that it is important to have this policy in place because it gives him, as well as the Board, a window as to how progress is being made, and getting corrective actions completed and in turn will help with future audit planning.

Draft – Proposed Board Policy on Follow-up to Internal Audit Findings & Recommendations

General Responsibilities:

Internal Audit. The Internal Auditor is responsible for performing the annual Internal Audit Plan approved by the Finance Committee of the Board. This includes but is not limited to:

1. Informing management of any potential issues during audit engagements and briefing the results of audits including any findings prior to releasing a draft audit report to management.
2. Formally presenting the results of each audit engagement in writing. Reports of audit will include any reportable findings, recommendations, and management's responses to the findings and recommendations.
3. Following up on previous audit findings and management responses to ensure that the corrective action(s) noted in the responses were in fact taken, and that those actions corrected the problem(s) identified.

Management. Management is to respond with actionable responses to each reported finding and recommendation in the internal auditor's report within an agreed-upon timeframe. Each management response should contain the following:

1. Acknowledgement of agreement (or disagreement if applicable) with the audit finding and recommendation.
2. A specific action or actions being taken (or already taken) to address the problem(s) noted in the finding and recommendation.
3. A statement that either affirms that the stated corrective action(s) has/have already been completed or, if not, an estimated date when management believes the corrective action(s) will be completed. The estimated completion date should be management's best estimate, based on available resources, priorities and schedules as to when the corrective action(s) can reasonably be expected to be completed.

Follow-Up of Open Management Responses to Audit Findings:

1. Schedule of Open Actions. For each management response for which the corrective action is to be completed by an estimated future date, a schedule will be developed to track, on at least a quarterly basis, the status of such corrective actions until they are completed.
 - a. There should be a notation each quarter regarding progress, if any, toward completion of the corrective action. If other priorities precluded further progress during a quarter, this should be so stated.
 - b. The Internal Auditor will receive an updated schedule each quarter and keep the Finance Chair apprised of action completion and status.

2. Schedule Usage.
 - a. Management. Management will use the schedule as a tool for reporting progress on open corrective actions to the Finance Committee quarterly.
 - b. Internal Auditor. The Internal Auditor will use the schedule to help in future planning efforts and to ensure that management's corrective actions are being implemented as stated in the management responses to audit reports.

Motion by Commissioner Price, seconded by Commissioner Louney, to approve the Policy on following up to the Internal Auditors finding and recommendations.

Action: Motion Carried

Excused Absence

None

Other

None

Adjourn

On Motion by Commissioner Price, seconded by Commissioner Louney, the meeting adjourned at 9:15 p.m.

Respectfully submitted
Margaret Bossenbery, Chair
Finance Committee

Fiscal Year 2014 Audited Financial Statements

RESOLVED, that the fiscal year 2014 Audited Financial Statements of the Enterprise Fund and the Pension Fiduciary Funds of the Board of Water and Light have been reviewed and is hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2014 Audited Financial Statements of the Enterprise Fund and the Pension Fiduciary Funds 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, 2014.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2014 Audited Financial Statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light with the City of Lansing.

September 4, 2014

To the Board of Commissioners
Lansing Board of Water and Light

We have audited the following financial statements (collective referred to as the “BWL”) as of and for the year ended June 30, 2014 and have issued our report thereon dated September 4, 2014:

- Board of Water and Light - City of Lansing, Michigan
- Lansing Board of Water and Light Retiree Benefit Plan and Trust
- Lansing Board of Water and Light Employee’s Defined Contribution Pension Plan
- Plan for Employees’ Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

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 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 Lansing Board of Water and Light and is not intended to be and should not be used by anyone other than these specified parties.

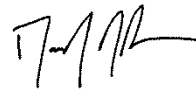
To the Board of Commissioners
Lansing Board of Water and Light

September 4, 2014

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



Douglas D. Rober, CPA
Partner

DRAFT

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 8, 2014, 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 the 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 letter about planning matters delivered on August 6, 2014.

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. 65 and GASB No. 67 during the fiscal year ended June 30, 2014. GASB No. 65 reclassified certain items that were previously reported as assets and liabilities and instead classifies them as deferred inflows of resources and deferred outflows of resources and also required that bond issuance costs be expensed immediately. As a result of implementing this statement, assets and liabilities have been properly reclassified in the financial statements and unamortized bond issuance costs were written off. GASB No. 67 required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the footnotes of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan statements have changed considerably along with the related schedules in the Required Supplementary.

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 it is 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 were 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. We did not detect any misstatements as a result of audit procedures. There was a reclassification of the insurance proceeds received, net of any impairment loss, through June 30, 2014 in the amount of \$10,099,712 related to the Wise Road Water Conditioning Plant from an offset to capital assets to a regulatory liability.

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 the Company'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 September 4, 2014.

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 Company’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.

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Section II - Informational Items

New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited 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 some changes to your 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 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 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 has many experts in these rules who can assist you in understanding the changes and how they impact the BWL. As we continue to delve into these new rules, we will keep you informed and updated.

New Pension Standards

Beginning with the BWL's June 30, 2015 year end, one new accounting standard issued by the Governmental Accounting Standards Board (GASB) will significantly impact the BWL's financial statements. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, significantly revise the current accounting and reporting requirements for pensions from an employer perspective. GASB Statement No. 67, *Accounting and Financial Reporting for Pension Plans* was implemented for the June 30, 2014 year end.

Employers providing defined benefit pensions to its employees must now recognize their unfunded pension benefit obligation as a liability for the first time, and must more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and expanded note disclosures and required supplementary information (RSI). As a result of implementing the new standard, there will be several new disclosures and schedules within the BWL's financial statements.

Significant coordination between the BWL, the actuary, and Plante Moran will be required in order to implement these pronouncements effectively. GASB Statement No. 68 is required to be adopted for BWL's June 30, 2015 year end. We are happy to work with the BWL over the next year to ensure smooth implementations of the new standard. We would also encourage BWL personnel to view the free webinars available on Plante Moran's website, if you haven't already.

Potential Change in Audited Financial Statement Due Date

Senate Bill 949 of 2014 was recently introduced. Among other things, the bill changes the due date for audits.

- The audit deadline would be moved to 150 days from 180 days (effective for fiscal years ending after June 30, 2014).
- If the deadline can't be met, the State can move in and either perform or contract for and charge the local unit for the audit services
- There'd be a requirement that budgets conform to the Uniform Chart of Accounts
- The biennial audit exception for units under 4,000 population would be removed
- Very specific language is added to say a unit can't adopt or operate under a deficit budget, nor incur an operating deficit.



Board of Water and Light - City of Lansing, Michigan

**Financial Report
with Additional Information
June 30, 2014**

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Board of Water and Light'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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2014 and 2013 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 2014, Plan adopted GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement Number 67, *Financial Reporting for Pension Plans*. 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, defined benefit plan schedule, and retiree benefit plan and trust schedule, as identified on 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 and is fairly stated in all material respects in relation to the basic financial statements as a whole.

September 4, 2014

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 2014.

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 95,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 64 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 162 customers, and a chilled water facility and distribution piping system serving 16 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 \$59.1 and \$133.0 million in fiscal years 2014 and 2013, 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 51.

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	2013	2012	2013 to 2014
Assets				
Utility plant	\$ 699.3	\$ 684.1	\$ 607.1	2.2
Other assets	<u>349.6</u>	<u>372.9</u>	<u>443.6</u>	(6.2)
Total assets	1,048.9	1,057.0	1,050.7	(0.8)
Deferred Outflows of Resources				
	1.2	1.7	1.6	(29.4)
Liabilities				
Long-term liabilities	383.2	403.4	423.5	(5.0)
Other liabilities	<u>69.5</u>	<u>71.4</u>	<u>65.1</u>	(2.7)
Total liabilities	<u>452.7</u>	<u>474.8</u>	<u>488.6</u>	(4.7)
Deferred Inflows of Resources				
	18.9	8.1	6.6	133.3
Net Position				
Net investment in capital assets	342.7	342.1	352.7	0.2
Restricted for debt service	76.0	69.7	71.5	9.0
Unrestricted	<u>159.8</u>	<u>163.9</u>	<u>132.9</u>	(2.5)
Net position	<u>\$ 578.5</u>	<u>\$ 575.7</u>	<u>\$ 557.1</u>	0.5

Utility plant increased by \$48 million due to normal construction, however this was offset by depreciation thus net plant only increased by \$14 million.

The BWL's REO Town Headquarters and natural gas cogeneration plant went into commercial operations on July 1, 2013. This \$182 million project was completed on schedule and on budget. The facility also helped the BWL conform to its Corporate Sustainability Policy as it received its Gold LEED certification. The BWL was also awarded the American Public Power Association's Energy Innovator Award for the REO Town Cogeneration facility. This facility is among the cleanest and most efficient to operate in the United States.

Other assets decreased by \$23 million. The decrease is largely attributable to the disbursement of revenue bond funds during the year to pay for costs associated with construction of the combined-cycle cogeneration plant. The decrease in other assets due to construction spending was partially offset by cash flows generated from operations.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions) (Continued)

	June 30			% Change
	2014	2013	2012	2013 to 2014
Results of Operations				
Operating revenues	\$ 348.0	\$ 331.7	\$ 320.1	4.9
Operating expenses	306.8	295.7	286.6	3.8
Nonoperating expense - Net	(38.4)	(17.3)	(11.0)	(122.0)
Changes in Net Position	<u>\$ 2.8</u>	<u>\$ 18.7</u>	<u>\$ 22.5</u>	(85.0)

Operating revenues increased over last year's due to higher wholesale sales.

Operating expenses increased by \$11 million from fiscal year 2013 primarily as a result of higher fuel costs associated with electric and steam generation and costs associated to the ice storm that took place in December of 2013.

Budget - The BWL commissioners approved a \$268.8 million operating expense budget (excluding depreciation and impairment) for fiscal year 2014. Actual expenses (excluding depreciation) were \$267.8 million or .41 percent less than budget. The net capital improvement budget was \$84 million for fiscal year 2014 and actual net capital expenditures were approximately \$56.8 million.

Financing Activities - During fiscal year 2014 there were no significant financing activities.

Other Significant Items - The BWL was recognized by the American Public Power Association with a Reliable Public Power Provider (RP3) Diamond Status designation. The APPA Diamond Status demonstrates the BWL's dedication to providing safe and reliable electric service to our customers.

Board of Water and Light - City of Lansing, Michigan

Statement of Net Position

	June 30	
	2014	2013
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 51,773,756	\$ 45,456,683
Cash and cash equivalents (Notes 4 and 11)	51,545,956	51,922,898
Investments (Notes 1 and 11)	91,030,822	77,555,125
Accounts receivable - Net (Note 1)	23,602,383	21,749,752
Estimated unbilled accounts receivable (Note 1)	17,157,806	16,095,243
Inventories (Note 1)	23,474,266	22,745,993
Other	3,617,737	1,437,259
Total current assets	262,202,726	236,962,953
Other Assets		
Recoverable energy asset (Note 6)	2,797,695	10,554,421
Recoverable revenue of Central Utilities Complex (Note 6)	(4,255,372)	(1,684,590)
Recoverable environmental remediation (Note 6)	23,626,611	28,971,996
Special deposit	14,225,000	14,225,000
Other	4,220,485	4,155,712
Total other assets	40,614,419	56,222,539
Noncurrent Restricted Assets (investments) (Notes 4 and 11)	46,828,045	79,685,578
Utility Plant (Note 1)		
Water	288,627,287	263,328,526
Electric	773,262,520	758,023,493
Steam	64,685,056	61,507,777
Chilled water	32,917,461	32,798,019
Common facilities	75,026,577	70,715,557
Central Utilities Complex	76,079,000	76,079,000
Total	1,310,597,901	1,262,452,372
Less accumulated depreciation	624,749,511	591,349,081
Net	685,848,390	671,103,291
Construction in progress (Note 3)	13,439,221	12,975,857
Total utility plant	699,287,611	684,079,148
Total assets	1,048,932,801	1,056,950,218
Deferred Outflows of Resources -		
Bond refunding loss being amortized	1,228,706	1,699,745

Board of Water and Light - City of Lansing, Michigan

Statement of Net Position (Continued)

	June 30	
	2014	2013
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 32,120,138	\$ 35,435,303
Current portion of long-term debt (Note 5)	17,824,253	17,180,543
Accrued payroll and related taxes	3,725,544	3,300,986
Customer deposits	2,674,858	2,373,334
Accrued compensated absences (Note 1)	3,916,658	3,797,080
Accrued interest	9,261,217	9,307,268
Total current liabilities	69,522,668	71,394,514
Compensated Absences - Less current portion (Note 1)	7,182,984	7,170,015
Other Long-term Liabilities		
Workers' compensation	2,000,000	2,000,000
Environmental remediation liability (Note 9)	10,356,249	11,288,468
Other	2,327,615	2,696,072
Total other long-term liabilities	14,683,864	15,984,540
Long-term Debt - Less current portion (Note 5)	361,310,213	380,247,920
Total liabilities	452,699,729	474,796,989
Deferred Inflows of Resources - Regulated operations - Revenue intended to cover future costs (Note 6)	18,944,163	8,127,886
Net Position		
Net investment in capital assets	342,717,240	342,072,313
Restricted for debt service (Note 4)	76,037,706	69,720,633
Unrestricted	159,762,669	163,932,142
Total net position	<u>\$ 578,517,615</u>	<u>\$ 575,725,088</u>

Board of Water and Light - City of Lansing, Michigan

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2014	2013
Operating Revenues (Note 1)		
Water	\$ 37,246,939	\$ 37,444,107
Electric	289,154,465	277,157,446
Steam	16,324,128	12,029,340
Chilled water	5,397,411	5,139,836
Total operating revenues	348,122,943	331,770,729
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	165,199,058	158,093,248
Maintenance	17,045,140	18,584,274
Transmission and distribution:		
Operating expenses	11,829,786	6,835,706
Maintenance	11,262,716	8,811,048
Administrative and general	62,484,318	65,095,731
Depreciation and impairment (Note 1)	38,997,186	38,297,875
Total operating expenses	306,818,204	295,717,882
Operating Income	41,304,739	36,052,847
Nonoperating Income (Expenses)		
Investment income	1,866,462	1,094,077
Other (expense) income	(5,974,385)	1,676,960
System capacity fee	9,222,989	9,221,651
Bonded debt interest expense	(15,334,915)	(5,998,530)
Amortization - Central Utilities Complex	(7,642,715)	(7,247,715)
Return on Equity (Note 7)	(20,608,093)	(16,120,694)
Other interest expense	(41,555)	(20,908)
Total nonoperating expenses - Net	(38,512,212)	(17,395,159)
Net Income (Changes in Net Position)	2,792,527	18,657,688
Net Position - Beginning of year - As restated (Note 16)	575,725,088	557,067,400
Net Position - End of year	\$ 578,517,615	\$ 575,725,088

Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows

	Year Ended June 30	
	2014	2013
Cash Flows from Operating Activities		
Cash from customers:		
Water	\$ 37,669,771	\$ 37,998,434
Electric	296,772,164	268,056,697
Steam	14,041,374	13,358,109
Chilled water	4,960,008	4,405,844
Total cash from customers	353,443,317	323,819,084
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(134,722,274)	(129,845,471)
Other suppliers	(85,526,501)	(70,529,633)
Total cash paid to suppliers	(220,248,775)	(200,375,104)
Cash paid to employees	(51,598,018)	(48,938,729)
Return on equity (Note 7)	(20,608,093)	(16,120,694)
Cash from customer deposits	301,524	186,526
Interest on customer deposits	(41,555)	(20,908)
Net cash provided by operating activities	61,248,400	58,550,175
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	208,084	26,137,817
Planned, bonded, and annual construction	(59,277,580)	(120,345,859)
Principal payments on debt	(18,031,042)	(43,485,322)
System capacity fees	9,222,989	9,221,651
Interest on debt	(15,380,966)	(6,041,299)
Net cash used in capital and related financing activities	(83,258,515)	(134,513,012)
Cash Flows from Noncapital Financing Activities		
Proceeds from the sale of emissions allowances	25,826	1,365
Proceeds from the Belle River Project and other	6,676,122	1,168,346
Net cash provided by noncapital financing activities	6,701,948	1,169,711
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	160,116,297	240,558,194
Interest received	3,696,174	3,817,729
Purchase of investments	(142,564,173)	(164,278,663)
Net cash provided by investing activities	21,248,298	80,097,260
Net Increase in Cash and Cash Equivalents	5,940,131	5,304,134
Cash and Cash Equivalents - Beginning of year	97,379,581	92,075,447
Cash and Cash Equivalents - End of year	\$ 103,319,712	\$ 97,379,581

Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2014	2013
Balance Sheet Classifications		
Restricted cash and cash equivalents	\$ 51,773,756	\$ 45,456,683
Cash and cash equivalents	<u>51,545,956</u>	<u>51,922,898</u>
Cash and Cash Equivalents - End of year	<u>\$ 103,319,712</u>	<u>\$ 97,379,581</u>

Reconciliation of Operating Income to Net Cash from Operating Activities:

	Year Ended June 30	
	2014	2013
Operating income	\$ 41,304,739	\$ 36,052,847
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(20,608,093)	(16,120,694)
Depreciation and impairment	38,997,186	38,297,875
Sewerage collection fees	977,373	893,905
Interest on customer deposits	(41,555)	(20,908)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	(276,896)	(31,487)
Unbilled accounts receivable (Note 1)	(1,062,563)	197,959
Inventories	(728,273)	4,396,806
Customer deposits	301,524	186,526
Special deposit	-	(1,600,000)
Other	5,511,475	(9,224,299)
Increase in liabilities:		
Accounts payable and other accrued expenses	(2,771,029)	5,817,264
Other	<u>(355,488)</u>	<u>(295,619)</u>
Total adjustments	<u>19,943,661</u>	<u>22,497,328</u>
Net cash provided by operating activities	<u>\$ 61,248,400</u>	<u>\$ 58,550,175</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Net Position

	June 30	
	2014	2013
Assets		
Receivable - Investment interest receivable	\$ 331,781	\$ 299,604
Investments at fair value:		
Money market collective trust fund	8,904,375	11,708,441
U.S. government obligations	23,639,025	21,320,442
Corporate bonds and notes	32,558,775	31,490,049
Mutual funds	133,962,556	113,004,660
Stable value	33,607,203	32,243,585
Equities	165,310,705	136,587,441
Current liability	(13,000)	-
Self-directed brokerage account	1,147,041	859,599
Participant notes receivable	4,082,709	3,909,080
	<u>403,199,389</u>	<u>351,123,297</u>
Total investments		
Net Position - Held in trust for pension and other employee benefits	<u>\$ 403,531,170</u>	<u>\$ 351,422,901</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Changes in Net Position

	Year Ended June 30	
	2014	2013
Increases		
Investment income:		
Net appreciation in fair value of investments	\$ 53,252,318	\$ 34,227,455
Interest and dividend income	10,112,195	7,689,588
Net investment income	63,364,513	41,917,043
Employer contributions	14,734,353	19,539,305
Participant rollover contributions	1,053,879	2,395,693
Other	270,989	249,450
Total increases	79,423,734	64,101,491
Decreases		
Benefits paid to participants	25,452,920	26,398,589
Loan defaults	119,694	120,280
Participants' note and administrative fees	1,742,851	1,418,106
Total decreases	27,315,465	27,936,975
Net Increase in Net Position Held in Trust	52,108,269	36,164,516
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	351,422,901	315,258,385
End of year	\$ 403,531,170	\$ 351,422,901

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note I - 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 the Financial Statements June 30, 2014 and 2013

Note I - Significant Accounting Policies (Continued)

The BWL follows the accounting and reporting requirements of GASB 62, paragraphs 476-500, which requires 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 the Financial Statements June 30, 2014 and 2013

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	
	2014	2013
Designated purpose:		
Coal inventory fluctuation	\$ 4,529,062	\$ 4,456,466
Litigation, environmental, and uninsured losses	18,306,887	18,013,360
Future water facilities	3,688,651	3,629,487
Subtotal	26,524,600	26,099,313
Special purpose - Future construction	64,188,452	51,763,674
Total	<u>\$ 90,713,052</u>	<u>\$ 77,862,987</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 2014 and 2013 are as follows:

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 1 - Significant Accounting Policies (Continued)

	2014	2013
Customer receivables	\$ 20,102,775	\$ 19,325,882
Sewerage collections	2,545,497	2,412,270
Combined sewer overflow - City of Lansing	(944,583)	(944,583)
Miscellaneous	3,898,694	2,456,183
Less allowance for doubtful accounts	<u>(2,000,000)</u>	<u>(1,500,000)</u>
Net	<u>\$ 23,602,383</u>	<u>\$ 21,749,752</u>

Special Deposit - The BWL contracted with Consumer's Energy to install a new gas pipeline. The BWL funded construction of this pipeline and incurred \$15,900,000. 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. The remaining \$14,225,000 has been recorded as a long-term other asset which is anticipated to be refunded over the next five 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:

	2014	2013
Coal	\$ 8,234,376	\$ 10,521,548
Gas	1,162,717	437,276
Materials and supplies	<u>14,077,173</u>	<u>11,787,169</u>
Total	<u>\$ 23,474,266</u>	<u>\$ 22,745,993</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 2014 and 2013, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note I - Significant Accounting Policies (Continued)

Classification of utility plant:	Life (Years)	Average Rate (Percent)	
		2014	2013
Water	4-100	1.9	1.9
Electric	4-50	3.5	2.6
Steam	5-50	3.3	1.4
Chilled water	5-50	3.5	3.5
Common facilities	4-50	5.7	4.8
Central Utilities Complex	15	6.7	6.7

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:

	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)	27,644,817	(5,575,474)	773,262,521
Steam	61,507,777	(1,653,867)	5,302,399	(471,254)	64,685,055
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

	Depr. / Amort.				
	Accum. Depr. FY Start	Depreciation Transfer	and Impairment for Year	Depreciation Retirement	Accum. Depr. 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)

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note I - Significant Accounting Policies (Continued)

Capital Asset Activity for Year End June 30, 2013

	Capital Assets				Capital Assets
	FY Start	Transfers	Acquisition	Retirement	FY End
Water	\$ 256,836,079	\$ -	\$ 8,119,310	\$ (1,626,863)	\$ 263,328,526
Electric	651,857,854	63,584,110	96,213,133	(53,631,604)	758,023,493
Steam	46,152,972	11,458,595	16,788,638	(12,892,431)	61,507,777
Chilled	32,733,046	-	64,973	-	32,798,019
Common	66,654,196	(75,042,705)	87,229,497	(8,125,431)	70,715,557
CUC	76,079,000	-	-	-	76,079,000
Total	\$ 1,130,313,147	\$ -	\$ 208,415,551	\$ (76,276,329)	\$ 1,262,452,372

Accumulated Depreciation for Year End June 30, 2013

	Accum. Deprc.	Depreciation	Deprc. / Amort.	Depreciation	Accum. Deprc.
	FY Start	Transfer	for Year	Retirement	FY End
Water	\$ (77,917,659)	\$ -	\$ (4,939,545)	\$ 1,288,215	\$ (81,568,989)
Electric	(421,192,359)	(2,698,365)	(27,337,107)	52,898,761	(398,329,070)
Steam	(24,528,042)	2,698,365	(1,502,446)	12,842,367	(10,489,756)
Chilled	(5,618,264)	-	(1,132,783)	-	(6,751,047)
Common	(42,814,977)	-	(3,404,044)	7,800,068	(38,418,953)
CUC	(50,719,333)	-	(5,071,933)	-	(55,791,266)
Total	\$ (622,790,634)	\$ -	\$ (43,387,858)	\$ 74,829,411	\$ (591,349,081)

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 \$11,099,642 and \$10,967,095 as of June 30, 2014 and 2013, 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 the Financial Statements June 30, 2014 and 2013

Note 1 - 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(s) 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(s) 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.

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 do 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 the Financial Statements June 30, 2014 and 2013

Note I - Significant Accounting Policies (Continued)

Unbilled Accounts Receivable and Revenue - Unbilled accounts receivable at June 30, 2014 and 2013 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 \$9,037,781 and \$8,036,147 in 2014 and 2013, 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 \$25,826 and \$1,365 as of June 30, 2014 and 2013, respectively, from the sale of allowances and has recorded an intangible asset of \$0 as of June 30, 2014 and 2013 for purchased allowances related to future periods.

Significant Customers - The BWL has one customer which accounts for approximately 9 percent of the BWL's total revenue for the years ended June 30, 2014 and 2013.

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 the Financial Statements June 30, 2014 and 2013

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 \$52,122,000 and \$27,765,000 at June 30, 2014 and 2013, respectively, including commitments on existing construction contracts approximating \$19,257,000 and \$2,541,000 at June 30, 2014 and 2013, 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 the Financial Statements June 30, 2014 and 2013

Note 4 - Restricted Assets

Restricted assets are required under the 2002B, 2003A, 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, 2014	Carrying Value	
		2014	2013
Current:			
Operations and Maintenance Fund	\$ 28,714,000	\$ 80,126,021	\$ 74,999,639
Bond and Interest Redemption Fund	23,059,756	23,193,691	22,379,942
Total current	51,773,756	103,319,712	97,379,581
Noncurrent:			
2011A Construction Fund	22,564,095	22,564,095	55,421,628
Bond Reserve Fund	24,263,950	24,263,950	24,263,950
Total noncurrent	46,828,045	46,828,045	79,685,578
Total	\$ 98,601,801	\$ 150,147,757	\$ 177,065,159

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, 2014.

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 2002B, 2003A, 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 2002B, 2003A, 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, 2014 the cost basis in the fund was \$24,581,720.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 5 - Long-term Debt

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

	2014	2013
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%	\$ 21,085,000	\$ 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%	16,960,000	17,370,000
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%	18,985,000	26,360,000
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%	39,990,000	39,995,000
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	8,240,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2003A, due serially through July 1, 2026, plus interest at rates ranging from 4.00% to 5.00%	-	465,000

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 5 - Long-term Debt (Continued)

	2014	2013
Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.50% to 3.75%	\$ -	\$ 2,410,000
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%	10,173,301	10,784,894
Promissory note, due in monthly installments of \$25,177.37 including interest at 4.85%, with final payment on December 31, 2013	-	148,950
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	75,000
Granger III Corporation for ash hauling services due in monthly installments ranging from \$150,000 to \$250,000	4,650,712	7,472,628
City of Lansing Agreement for the Enhancement of the Flood warning system \$10,000 annually with final payment in 2016.	20,000	-
Total	367,424,013	384,406,472
Less current portion	(17,824,253)	(17,180,543)
Plus current portion of premium on bonds	966,576	1,077,185
Plus unamortized premium	10,743,877	11,944,806
Total long-term portion	<u>\$ 361,310,213</u>	<u>\$ 380,247,920</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 \$423,049,941 and \$411,284,231 at June 30, 2014 and 2013, 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 the Financial Statements June 30, 2014 and 2013

Note 5 - Long-term Debt (Continued)

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

	Principal	Interest	Total
2015	\$ 17,824,253	\$ 17,636,333	\$ 35,460,586
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
2020-2024	42,101,433	73,004,662	115,106,095
2025-2029	53,034,691	62,211,940	115,246,631
2030-2034	66,211,051	48,162,503	114,373,554
2035-2039	83,750,000	30,364,750	114,114,750
2030-2042	61,575,000	6,894,250	68,469,250
Total	<u>\$ 367,424,013</u>	<u>\$ 302,632,085</u>	<u>\$ 670,056,098</u>

The 2002B, 2003A, 2005A, 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, 2014, the balance of this reserve account was \$24,581,720 (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.

During the fiscal year ended June 30, 2013, the BWL issued \$21,085,000 Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond Series 2013A with an interest rate of 2.0 to 5.0 percent. The proceeds of these bonds, which were issued at a premium of about \$3.3m, were used to advance refund \$25,730,000 of outstanding 2003A revenue bonds with an interest rate of 4.125 to 5.0 percent. The net proceeds of \$24,326,835 (after payment of \$321,138 in underwriting fees, insurance, and other issuance costs) plus an additional \$2,012,607 of Bond reserve and Bond Redemption Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the BWL's long-term debt obligations. The advance refunding reduced total debt service payments over the next 14 years by approximately \$7,017,944, which represents an economic gain of approximately \$3,921,686.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 5 - Long-term Debt (Continued)

The 2012A Bond is payable in annual installments in the years 2013 to 2018, inclusive, 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, 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 BWL has defeased several bond issues in prior years. The proceeds of the new bonds were placed in an escrow deposit fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow deposit fund assets and the liability for the defeased bonds are not included in the financial statements. The outstanding balance of all defeased liabilities is \$0 and \$25,730,000 at June 30, 2014 and 2013, respectively.

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 maturing in the years 2011 to 2014, inclusive, shall not be subject to redemption prior to maturity.

The Series 2003A Bonds maturing in the years 2004 to 2013, inclusive, shall not be subject to redemption prior to maturity. Series 2003A Bonds due on or after July 1, 2014 to 2026, inclusive, were redeemed through the proceeds of the Series 2013A Bond issuance.

The Series 2002B Bonds shall not be subject to redemption prior to maturity. Series 2002A Bonds due on or after July 1, 2013 were redeemed through the proceeds of the 2012A Bond issuance.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 5 - Long-term Debt (Continued)

The long-term debt activity for the year ended June 30, 2014 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 378,946,991	\$ 18,481,472	\$ 397,428,463
Additions	-	208,084	208,084
Reductions	<u>(14,696,528)</u>	<u>(3,805,553)</u>	<u>(18,502,081)</u>
Ending balance	<u>\$ 364,250,463</u>	<u>\$ 14,884,003</u>	<u>\$ 379,134,466</u>
Due within one year	\$ 14,155,000	\$ 3,669,253	\$ 17,824,253

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 is \$670,056,098. During the current year, net revenues of the BWL were \$57,320,261 compared to the annual debt requirements of \$28,719,915.

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 \$(4,255,372) and \$(1,684,590) at June 30, 2014 and 2013, 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, 2014 and 2013, \$20,848,000 in total costs has been recoverable as a regulatory asset. An increase in the asset and liability was made during the year ended June 30, 2014 and 2013 of \$7,000,000.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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

As of June 30, 2014 and 2013, the amounts remaining to be recovered in rates were \$1,470,035 and \$7,030,823, 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, 2014 and 2013 was \$17,793,606. A reduction in the asset and liability was made during the year ended June 30, 2013 of \$4,400,000. 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, 2014 and 2013 for additional sites was \$4,362,970 and \$4,147,567, 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 \$2,797,695 and \$10,554,421 at June 30, 2014 and 2013, 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 \$6,421,464 and \$5,484,627 as of June 30, 2014 and 2013, respectively.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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 \$2,422,987 and \$2,643,259 as of June 30, 2014 and 2013, 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 \$10,099,712 as of June 30, 2014 when the related capital asset was moved into depreciable assets. 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 \$8,075,705 and \$9,160,105 in 2014 and 2013, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$924,809 and \$601,664 in 2014 and 2013, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$968,545 and \$898,269 in 2014 and 2013, 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 \$20,608,093 in 2014 and \$16,120,694 in 2013 of operational cash flow in excess of debt service requirements.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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

The Defined Benefit Plan was established by the BWL in 1939 under Section 5-203 of the City Charter and has been revised several times, with the latest revision taking effect on July 1, 2010.

The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and the Defined Contribution Plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in 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. 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 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established Defined Contribution Plan.

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.

A participant's interest is fully vested when the participant has been credited with seven years of vesting service. The Defined Benefit Plan provides for an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.65 percent of the average annual pay during the last 10 years of service, paid in equal monthly installments.

Effective July 1, 1996, the Defined Benefit Plan was amended to provide active employees as of the effective date an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.8 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 8 - Retirement Plans (Continued)

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, 2014 and 2013.

Basis of Accounting - The Defined Benefit 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*. Benefits are recognized when due and payable in accordance with the terms of the Defined Benefit Plan.

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

Funding Policy and Annual Pension Cost - The BWL's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the years ended June 30, 2014, 2013, and 2012 were determined using an attained age projected unit credit actuarial funding method. Overfunded actuarial accrued liabilities were amortized as a level dollar reduction of contributions over a period of 15 years in 2014, 2013, and 2012. No participant contributions are required.

Regulatory Status - The Defined Benefit 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.

The annual pension cost was determined as part of an actuarial valuation of the Defined Benefit Plan as of February 28, 2014, 2013, and 2012. Significant actuarial assumptions used in determining the annual pension cost include (a) rate of return on the investment of present and future assets of 7.5 percent in 2014, 2013, and 2012, compounded annually, (b) projected salary increases ranging from 6.44 to 10.26 percent in 2014, 2013, and 2012, compounded annually, depending on age, attributable to inflation, and (c) the assumption that benefits will not increase after retirement.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 8 - Retirement Plans (Continued)

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 cost of living adjustments. 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 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The pension cost for the three most recent years is as follows:

	2014	2013	2012
Annual pension cost	\$ -	\$ -	\$ -
Percentage of APC contributed	n/a	n/a	n/a
Net pension obligation	-	-	-

Employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the Defined Benefit Plan and consisted of the following:

	2014	2013	2012
Normal cost	\$ 333,022	\$ 397,079	\$ 477,418
Amortization of the (overfunded)/ underfunded actuarial accrued liability	(7,916,950)	(6,840,144)	(1,190,311)
Total target contribution	(7,583,928)	(6,443,065)	(712,893)
Interest factor	1.0750	1.0750	1.0750
Annual required contribution	\$ -	\$ -	\$ -

Based on the overfunded status of the Defined Benefit Plan through June 30, 2014, no employer contributions were required.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 8 - Retirement Plans (Continued)

Three-year Trend Information (in thousands) - Assets available at market, actuarial accrued liability - projected unit cost method (AAL), unfunded actuarial accrued liability (UAAL), and negative UAAL indicate a funding excess.

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/28/2011	\$ 85,587	\$ 74,292	\$ (11,295)	115.20%	\$ 2,398	(471.0)
2/28/2012	79,142	72,302	(6,840)	109.46%	2,101	(325.6)
2/28/2013	76,395	68,478	(7,917)	111.56%	1,684	(470.1)
2/28/2014	80,182	70,042	(10,140)	114.48%	1,225	(827.8)

AAL - Actuarial Accrued Liability (Projected Unit Credit Accrued Liability)

UAAL - Unfunded Actuarial Accrued Liability, negative UAAL indicates a funding excess

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 the Financial Statements June 30, 2014 and 2013

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, 2014 and 2013, the BWL contributed \$5,467,824 and \$5,494,101, 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.

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 698 participants eligible to receive benefits at June 30, 2014 and 692 participants eligible at June 30, 2013.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 8 - Retirement Plans (Continued)

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, 2014 and 2013, the cost to BWL of maintaining the Retiree Benefit Plan was \$9,266,529 and \$14,045,204, respectively, of which \$0 and \$4,521,084, respectively, was contributed to the VEBA trust and \$9,266,529 and \$9,524,120, 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.

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.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 8 - Retirement Plans (Continued)

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.

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, 2014 and 2013.

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
6/30/2011	\$ 17,300	\$ 17,236	100%	\$ (150)
6/30/2012	15,744	15,854	101%	(260)
6/30/2013	13,994	14,045	100%	(311)
6/30/2014	9,202	9,268	101%	(377)

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 8 - Retirement Plans (Continued)

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
2/28/2011	\$ 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%

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, 2014 and 2013, the BWL has two letters of credit in the amounts of \$817,220 and \$1,000,000 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 post closure monitoring and maintenance of a landfill site operated by the BWL.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 9 - Commitments and Contingencies (Continued)

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 post closure cost of the landfills, and has recorded the liability of \$10,312,492 and \$11,244,715 for the years ended June 30, 2014 and 2013, respectively. Certain remediation activities have commenced and are in progress. The landfill sites are no longer receiving waste products. Landfill closure and post closure requirements are associated with the Michigan Department of Environmental Quality. Annual post closure 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 three years at an estimated remaining cost of \$10,669,000. There is no legal obligation to replace the pipes, therefore no liability has been recorded.

The BWL has obtained financing to build a new combined-cycle cogeneration facility. The project has an estimated cost to complete of \$22,225,000, including commitments on this project of \$3,172,000. This project was funded through the 2011 IA Bond.

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, 2014 and 2013 in regard to specific pending legal cases.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 9 - Commitments and Contingencies (Continued)

The BWL has entered into contracts to purchase coal totaling approximately \$14,197,917 through December 31, 2016. 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 \$34,256,250 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.

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
2015	\$ 17,675,374	\$ 12,389,478	\$ 30,064,852
2016	17,675,628	12,678,894	30,354,522
2017	17,676,913	12,976,026	30,652,939
2018	8,838,770	13,126,548	21,965,318
Total	<u>\$ 61,866,685</u>	<u>\$ 51,170,946</u>	<u>\$ 113,037,631</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.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 10 - Power Supply Purchase (Continued)

The BWL recognized expenses for 2014 and 2013 of \$52,549,164 and \$52,914,412, 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.

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.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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

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 and 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, 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 year-end, 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:

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

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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

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	-	-

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	AI/PI	S&P
	4,994,396	AI+/PI	S&P
	2,996,083	AI/PI	S&P
	4,993,739	AI/PI	S&P
	1,313,050	AI/PI	S&P
	3,246,733	AI/PI	S&P
	4,098,924	AI+/PI	S&P
	2,997,393	AI+/PI	S&P
	2,996,798	AI/PI	S&P

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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

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.

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 133,962,556	Not Rated	Not Rated
Government or agency bond	7,354,686	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	D	S&P

Foreign Currency Risk - The BWL holds no investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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

Risks at June 30, 2013

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, 2013, the BWL had \$27,131,331 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	\$ 93,329,047	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)	\$ 96,294,877	\$ 96,294,877	\$ -	\$ -
U.S. government or agency bond or note	92,055,388	46,321,200	44,618,641	1,115,547
Commercial paper	29,431,740	29,431,740	-	-

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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	\$ 21,320,442	12.18
Money market trust funds	8,820,848	Less than 1 year
Corporate bonds	31,490,049	14.67

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	\$ -	AAA	S&P
Commercial paper	1,527,287	A-1	S&P
	3,997,333	A-1	S&P
	2,995,227	A-2	S&P
	1,357,949	A-1	S&P
	4,992,636	A-1	S&P
	3,960,314	A-1	S&P
	1,514,926	A-1	S&P
	1,083,610	A-2	S&P
	3,007,291	A-1	S&P
4,995,167	A-1	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 the Financial Statements June 30, 2014 and 2013

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

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 113,004,660	Not Rated	Not Rated
Government or agency bond	21,320,442	Not Rated	Not Rated
Stable value	32,243,585	AA	S&P
Corporate bonds	-	Not Rated	Not Rated
Corporate bonds	4,331,818	AAA	S&P
Corporate bonds	11,451,540	AA+	S&P
Corporate bonds	420,815	AA	S&P
Corporate bonds	609,309	AA-	S&P
Corporate bonds	1,853,758	A+	S&P
Corporate bonds	2,142,513	A	S&P
Corporate bonds	3,433,411	A-	S&P
Corporate bonds	1,139,634	BBB+	S&P
Corporate bonds	2,610,419	BBB	S&P
Corporate bonds	1,116,359	BBB-	S&P
Corporate bonds	295,014	BB+	S&P
Corporate bonds	354,566	BB	S&P
Corporate bonds	256,563	BB-	S&P
Corporate bonds	19,350	B+	S&P
Corporate bonds	179,601	B	S&P
Corporate bonds	254,321	B-	S&P
Corporate bonds	-	CCC+	S&P
Corporate bonds	973,371	CCC	S&P
Corporate bonds	47,687	CC	S&P

Foreign Currency Risk - The BWL holds no investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

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 2002A and B, 2003A, 2005A, 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, 2014 and 2013. 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. 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 the Financial Statements June 30, 2014 and 2013

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		
	2014	2013	2012	2014	2013	2012
Unpaid claims -						
Beginning of year	\$ 2,000,000	\$ 2,000,000	\$ 2,300,000	\$ 1,590,814	\$ 1,606,994	\$ 1,520,649
Incurred claims,						
incurred but not						
reported	864,854	1,077,383	1,150,867	18,340,955	18,644,371	18,766,360
Claim payments	<u>(864,854)</u>	<u>(1,077,383)</u>	<u>(1,450,867)</u>	<u>(18,294,493)</u>	<u>(18,660,551)</u>	<u>(18,680,015)</u>
Unpaid claims -						
End of year	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,637,276</u>	<u>\$ 1,590,814</u>	<u>\$ 1,606,994</u>

Note 14 - Wise Road Reconstruction Project

In July of 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 \$23 million; substantially all will be recouped from our insurance carrier. To date \$20,193,626 in funds are committed of which \$18,865,256 have been expended.

Note 15 - Upcoming Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension asset that will be recorded on the statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The BWL is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 16 - Change in Accounting

During the current year, the BWL adopted GASB statement number 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	As of June 30, 2014	As of June 30, 2013	As of July 1, 2012	Prior Reporting Classification/ Treatment	New Classification After Adoption of GASB Statement No. 65
Deferred amounts on debt refundings	\$ 1,228,706	\$ 1,699,745		Adjustment to the bonds payable liability	Deferred outflow of resources
Bond issuance costs		321,138	\$ 2,450,931	Adjustment to the bonds payable liability	Outflow of resources (an expense)
Regulated operations - Revenue intended to cover future costs	8,844,451	18,944,163		Liability	Deferred inflow of resources

Board of Water and Light - City of Lansing, Michigan

Notes to the Financial Statements June 30, 2014 and 2013

Note 16 - Change in Accounting (Continued)

As this statement is applied retroactively, the financial statements for the year ended June 30, 2013 and 2012 have been restated to apply the changes noted associated with bond issuance costs.

The effect of this change is as follows:

Net Position - July 1, 2012, as originally reported	\$ 559,518,331
GASB 65 Adjustment to write off unamortized bond issuance costs as of July 1, 2012 (included in long-term debt liability)	(1,624,079)
GASB 65 Adjustment to write off unamortized bond issuance as of July 1, 2012 (included in utility plant asset)	(826,852)
Net Position - July 1, 2012, as restated	<u>\$ 557,067,400</u>
Net Income - Year Ended June 30, 2013, as originally reported	\$ 18,787,670
GASB 65 Adjustment to eliminate amortization of bond issuance costs for the year ended June 30, 2013 (included in bonded debt interest expense)	173,108
GASB 65 Adjustment to eliminate depreciation expense related to bond issuance costs included in utility plant asset for the year ended June 30, 2013 (included in depreciation and impairment expense)	18,048
GASB 65 Adjustment to eliminate new bond issuance costs recorded as an adjustment to the long-term debt liability during the year ended June 30, 2013 (included in bonded debt interest expense)	(321,138)
Net Income - Year Ended June 30, 2013, as restated	<u>\$ 18,657,688</u>

During the current year, the BWL and Pension Plan adopted GASB Statement Number 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the footnotes of the separately issued Defined Benefit Pension Plan statements have changed considerably along with the related schedules in the Required Supplementary Information of the separately issued statements.

Required Supplemental Information

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Board of Water and Light - City of Lansing, Michigan

Required Supplemental Information Defined Benefit Plan Schedule Year Ended June 30, 2014 and 2013

The schedule of funding progress as determined by an actuarial valuation used for purposes of determining the annual required contribution is as follows:

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/28/2011	\$ 85,587	\$ 74,292	\$ (11,295)	115.20%	\$ 2,398	(471.0)
2/28/2012	79,142	72,302	(6,840)	109.46%	2,101	(325.6)
2/28/2013	76,395	68,478	(7,917)	111.56%	1,684	(470.1)
2/28/2014	80,182	70,042	(10,140)	114.48%	1,225	(827.8)

Board of Water and Light - City of Lansing, Michigan

Required Supplemental Information Retiree Benefit Plan and Trust Schedule Year Ended June 30, 2014 and 2013

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>
2/28/2011	\$ 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%

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Additional Information

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Board of Water and Light - City of Lansing, Michigan

Income Available for Revenue Bond Debt Retirement

	Year Ended June 30	
	2014	2013
Income - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 2,792,527	\$ 18,657,688
Adjustments to Income		
Depreciation and impairment	38,997,186	38,297,875
Interest on long-term debt:		
Notes	41,555	20,908
Revenue bonds	15,334,915	5,998,530
Total additional income	54,373,656	44,317,313
Income Available for Revenue Bonds and Interest Redemption	\$ 57,166,183	\$ 62,975,001
Debt Retirement Pertaining to Revenue Bonds		
Principal	\$ 13,385,000	\$ 12,770,000
Interest	15,334,915	5,998,530
Total	\$ 28,719,915	\$ 18,768,530
Percent Coverage of Revenue Bonds and Interest Requirements	199	336

Board of Water and Light - City of Lansing, Michigan

	Combined		Water	
	2014	2013	2014	2013
Operating Revenues				
Water	\$ 37,246,939	\$ 37,444,107	\$ 37,246,939	\$ 37,444,107
Electric:				
Retail	257,333,075	261,815,172	-	-
Sales for resale	31,821,390	15,342,274	-	-
Steam	16,324,128	12,029,340	-	-
Chilled water	5,397,411	5,139,836	-	-
Total operating revenues	348,122,943	331,770,729	37,246,939	37,444,107
Operating Expenses				
Production:				
Fuel, purchased power, and other operating expenses	165,199,058	158,093,248	8,957,388	8,532,692
Maintenance	17,045,140	18,584,274	2,981,167	2,943,693
Transmission and distribution:				
Operating expenses	11,829,786	6,835,706	1,478,877	1,521,023
Maintenance	11,262,716	8,811,048	3,554,104	2,822,156
Administrative and general	62,484,318	65,095,731	10,834,267	10,332,105
Depreciation and impairment	38,997,186	38,297,875	6,529,406	5,959,530
Total operating expenses	306,818,204	295,717,882	34,335,209	32,111,199
Operating Income	41,304,739	36,052,847	2,911,730	5,332,908
Nonoperating Income (Expenses)				
Investment income	1,866,462	1,094,077	279,183	57,828
Other income	(5,974,385)	1,676,960	(199,915)	961,528
System capacity fee	9,222,989	9,221,651	807,934	807,817
Bonded debt interest expense	(15,334,915)	(5,998,530)	(2,299,249)	(2,643,682)
Amortization - Central Utilities Complex	(7,642,715)	(7,247,715)	(669,502)	(634,900)
Payment in lieu of taxes	(20,608,093)	(16,120,694)	(2,230,811)	(1,856,000)
Other interest expense	(41,555)	(20,908)	(4,039)	(123)
Total nonoperating expense	(38,512,212)	(17,395,159)	(4,316,399)	(3,307,532)
Net Income	\$ 2,792,527	\$ 18,657,688	\$ (1,404,669)	\$ 2,025,376

Detail of Statement of Revenues and Expenses Year Ended June 30, 2014 and 2013

Electric		Steam		Chilled Water	
2014	2013	2014	2013	2014	2013
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
257,333,075	261,815,172	-	-	-	-
31,821,390	15,342,274	-	-	-	-
-	-	16,324,128	12,029,340	-	-
-	-	-	-	5,397,411	5,139,836
289,154,465	277,157,446	16,324,128	12,029,340	5,397,411	5,139,836
145,645,050	141,537,166	9,019,050	6,457,153	1,577,570	1,566,237
13,322,981	14,647,008	548,042	705,815	192,950	287,758
10,057,156	5,056,249	293,753	258,434	-	-
7,262,321	5,629,850	421,252	337,623	25,039	21,419
50,286,259	52,038,554	1,109,538	2,278,476	254,254	446,596
28,887,165	29,383,080	2,200,476	1,641,827	1,380,139	1,313,438
255,460,932	248,291,907	13,592,111	11,679,328	3,429,952	3,635,448
33,693,533	28,865,539	2,732,017	350,012	1,967,459	1,504,388
1,386,482	848,321	123,840	168,915	76,957	19,013
(2,846,705)	521,021	(2,920,159)	(14,410)	(7,606)	208,821
7,712,263	7,711,144	702,792	702,690	-	-
(11,828,911)	(1,731,534)	(428,751)	(114,947)	(778,004)	(1,508,367)
(6,390,838)	(6,060,539)	(582,375)	(552,276)	-	-
(17,200,740)	(13,477,441)	(849,248)	(530,710)	(327,294)	(256,543)
(37,516)	(20,783)	-	(2)	-	-
(29,205,965)	(12,209,811)	(3,953,901)	(340,740)	(1,035,947)	(1,537,076)
\$ 4,487,568	\$ 16,655,728	\$ (1,221,884)	\$ 9,272	\$ 931,512	\$ (32,688)

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 - July 1, 2012, as originally reported	\$ 559,518,331	\$ 92,447,575	\$ 471,460,023	\$ (3,706,473)	\$ (682,794)
GASB 65 Adjustment (Note 16)	<u>(2,450,931)</u>	<u>(416,140)</u>	<u>(1,613,506)</u>	<u>(322,535)</u>	<u>(98,750)</u>
Net Position - July 1, 2012, as restated	557,067,400	92,031,435	469,846,517	(4,029,008)	(781,544)
Income (loss) before contributions, as restated	<u>18,657,688</u>	<u>2,218,843</u>	<u>16,714,403</u>	<u>25,920</u>	<u>(301,478)</u>
Net Position - June 30, 2013, as restated	575,725,088	94,250,278	486,560,920	(4,003,088)	(1,083,022)
Income (loss) before contributions	<u>2,792,527</u>	<u>(1,404,669)</u>	<u>4,487,568</u>	<u>(1,221,884)</u>	<u>931,512</u>
Net Position - June 30, 2014	<u>\$ 578,517,615</u>	<u>\$ 92,845,609</u>	<u>\$ 491,048,488</u>	<u>\$ (5,224,972)</u>	<u>\$ (151,510)</u>

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Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Net Position

	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>

	June 30, 2013			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
Assets				
Receivable - Investment interest receivable	\$ -	\$ 113,980	\$ 185,624	\$ 299,604
Investments at fair value:				
Money market collective trust fund	-	3,209,522	8,498,919	11,708,441
U.S. government obligations	-	8,301,126	13,019,316	21,320,442
Corporate bonds and notes	-	12,168,664	19,321,385	31,490,049
Mutual funds	109,882,178	1,171,547	1,950,935	113,004,660
Stable value	32,243,585	-	-	32,243,585
Equities	-	50,459,178	86,128,263	136,587,441
Current liability	-	-	-	-
Self-directed brokerage account	859,599	-	-	859,599
Participant notes receivable	3,909,080	-	-	3,909,080
Total investments	<u>146,894,442</u>	<u>75,310,037</u>	<u>128,918,818</u>	<u>351,123,297</u>
Net Position - Held in trust for pension				
and other employee benefits	<u>\$ 146,894,442</u>	<u>\$ 75,424,017</u>	<u>\$ 129,104,442</u>	<u>\$ 351,422,901</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

	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
Net 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>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position (Continued) Year Ended June 30, 2013

	Year Ended June 30, 2013			
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in fair value of investments	\$ 12,924,636	\$ 8,364,770	\$ 12,938,049	\$ 34,227,455
Interest and dividend income	3,110,985	1,805,077	2,773,526	7,689,588
Total investment income	16,035,621	10,169,847	15,711,575	41,917,043
Employer contributions	5,494,101	-	14,045,204	19,539,305
Participant rollover contributions	2,395,693	-	-	2,395,693
Other	249,450	-	-	249,450
Total increases	24,174,865	10,169,847	29,756,779	64,101,491
Decreases				
Benefits paid to participants	9,097,209	7,777,260	9,524,120	26,398,589
Loan defaults	120,280	-	-	120,280
Participants' note and administrative fees	83,978	535,567	798,561	1,418,106
Total decreases	9,301,467	8,312,827	10,322,681	27,936,975
Net Increase in Net Position Held in Trust	14,873,398	1,857,020	19,434,098	36,164,516
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	132,021,044	73,566,997	109,670,344	315,258,385
End of year	<u>\$ 146,894,442</u>	<u>\$ 75,424,017</u>	<u>\$ 129,104,442</u>	<u>\$ 351,422,901</u>

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

**Financial Report
with Supplemental Information
June 30, 2014**

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, 2014 and 2013 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 the Lansing Board of Water and Light Employees' Defined Contribution Pension Plan as of June 30, 2014 and 2013 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014, Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. 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 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 purposes 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.

September 2, 2014

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:

	2014	2013	2012
Assets held in trust:			
Mutual funds	\$ 130,442,786	\$ 109,882,178	\$ 97,085,185
Stable value	33,607,203	32,243,585	30,547,019
Participant notes receivable and other	5,229,750	4,768,679	4,388,840
Net position	<u>\$ 169,279,739</u>	<u>\$ 146,894,442</u>	<u>\$ 132,021,044</u>
Changes in plan assets:			
Net investment income	\$ 23,453,570	\$ 16,035,621	\$ 520,705
Employer and participant contributions	6,521,703	7,889,794	6,633,327
Benefits paid to participants	(7,645,116)	(9,097,209)	(11,632,674)
Loan defaults and other increases	55,140	45,192	104,423
Changes in net position	<u>\$ 22,385,297</u>	<u>\$ 14,873,398</u>	<u>\$ (4,374,219)</u>

During fiscal year 2014, net investment income was \$23.5 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, 2014 saw a net investment income of \$23.5 million. Total assets held in trust at the end of the fiscal year were \$169.3 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 Susan Devon, Chief Administrative and Technology Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

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

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Statement of Net Position

	June 30	
	2014	2013
Assets		
Participant-directed investments (Note 1):		
Mutual funds:		
Money market	\$ 117,793	\$ 418,421
Bond and equity funds	16,556,877	16,438,836
Stock funds	60,617,315	51,617,791
Balanced funds	29,495,580	20,394,104
Growth funds	6,144,760	5,736,285
International funds	17,510,461	15,276,741
Total mutual funds	130,442,786	109,882,178
Stable value	33,607,203	32,243,585
Self-directed brokerage account	1,147,041	859,599
Total participant-directed investments	165,197,030	142,985,362
Participant notes receivable	4,082,709	3,909,080
Net Position	<u>\$ 169,279,739</u>	<u>\$ 146,894,442</u>

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

Statement of Changes in Net Position

	Year Ended June 30	
	2014	2013
Increase		
Investment income:		
Net appreciation in fair value of investments	\$ 17,907,856	\$ 12,924,636
Dividend income	5,545,714	3,110,985
Total investment income	23,453,570	16,035,621
Employer contributions (Note 1)	5,467,824	5,494,101
Participant rollover contributions	1,053,879	2,395,693
Interest from participant notes receivable	155,997	139,026
Other	114,992	110,424
Total increase	30,246,262	24,174,865
Decrease		
Benefits paid to participants	7,645,116	9,097,209
Loan defaults	119,694	120,280
Participants' note and administrative fees	96,155	83,978
Total decrease	7,860,965	9,301,467
Change in Net Position	22,385,297	14,873,398
Net Position		
Beginning of year	146,894,442	132,021,044
End of year	<u>\$ 169,279,739</u>	<u>\$ 146,894,442</u>

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

**Notes to Financial Statements
June 30, 2014 and 2013**

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, the plan administrator, controls and manages the operation and administration of the Plan.

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 non-bargaining 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, 2014 and 2013**

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' non-vested 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, 2014, there were 822 participants in the Plan, of which 682 were active employees. As of June 30, 2013, there were 825 participants in the Plan, of which 657 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, 2014 and 2013**

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.

Change in Accounting - During the current year, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required certain information to be included within the notes to the financial statements. As this information was already included, there were no significant changes due to the implementation of this standard.

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

**Notes to Financial Statements
June 30, 2014 and 2013**

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, 2014 and 2013

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, 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

Risks at June 30, 2013

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	\$ 109,882,178	Not rated	Not rated
Stable value	32,243,585	AA	S&P

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

**Notes to Financial Statements
June 30, 2014 and 2013**

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) that the prototype plan, as designed, is qualified for federal income tax-exempt status. The Plan has not individually sought its own determination letter.

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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	
	2014	2013	2014	2013
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 485	\$ 672	\$ 449,026	\$ (597,106)
Interest income	-	-	-	-
Dividend income	-	2	555,414	818,952
Employer contributions	13,731	10,367	487,362	477,598
Participant rollover contributions	-	3,553	33,403	14,921
Loan repayments	4,550	3,271	173,174	157,446
Interest from participant notes receivable	-	-	-	-
Other	-	-	13	(5,068)
Total increase, net of realized and unrealized gains and losses	18,766	17,865	1,698,392	866,743
Decrease				
Benefits paid to participants	64,086	64,224	536,673	519,536
Loans to participants	3,572	4,869	169,585	183,939
Loan defaults	-	-	-	-
Participants' note and administrative fees	972	552	21,360	16,768
Total decrease	68,630	69,645	727,618	720,243
Net (Decrease) Increase Prior to Interfund Transfers	(49,864)	(51,780)	970,774	146,500
Interfund Transfers	(250,764)	294,155	(852,733)	2,652,578
Net (Decrease) Increase	(300,628)	242,375	118,041	2,799,078
Net Position				
Beginning of year	418,421	176,046	16,438,836	13,639,758
End of year	<u>\$ 117,793</u>	<u>\$ 418,421</u>	<u>\$ 16,556,877</u>	<u>\$ 16,438,836</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	
	2014	2013	2014	2013
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 9,532,529	\$ 8,254,935	\$ 3,198,720	\$ 1,770,597
Interest income	-	-	-	-
Dividend income	3,874,276	1,273,144	558,296	425,615
Employer contributions	1,752,951	1,802,137	1,375,608	1,269,412
Participant rollover contributions	100,790	289,661	197,557	830,559
Loan repayments	602,678	619,254	349,248	370,113
Interest from participant notes receivable	-	-	-	-
Other	5	39	65	5,255
	<u>15,863,229</u>	<u>12,239,170</u>	<u>5,679,494</u>	<u>4,671,551</u>
Total increase, net of realized and unrealized gains and losses				
Decrease				
Benefits paid to participants	2,539,594	2,599,500	996,083	1,262,633
Loans to participants	634,522	640,159	367,726	497,315
Loan defaults	-	-	-	-
Participants' note and administrative fees	31,744	31,247	12,891	9,530
	<u>3,205,860</u>	<u>3,270,906</u>	<u>1,376,700</u>	<u>1,769,478</u>
Total decrease				
Net (Decrease) Increase Prior to Interfund Transfers	12,657,369	8,968,264	4,302,794	2,902,073
Interfund Transfers	<u>(3,657,845)</u>	<u>(2,789,461)</u>	<u>4,798,682</u>	<u>(761,958)</u>
Net Incease (Decrease)	8,999,524	6,178,803	9,101,476	2,140,115
Net Position				
Beginning of year	<u>51,617,791</u>	<u>45,438,988</u>	<u>20,394,104</u>	<u>18,253,989</u>
End of year	<u>\$ 60,617,315</u>	<u>\$ 51,617,791</u>	<u>\$ 29,495,580</u>	<u>\$ 20,394,104</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	
	2014	2013	2014	2013
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 1,053,965	\$ 587,820	\$ 3,063,853	\$ 2,231,514
Interest income	-	-	-	-
Dividend income	-	176,562	397,037	416,710
Employer contributions	588,556	609,029	535,453	595,157
Participant rollover contributions	9,045	-	31,217	148,746
Loan repayments	138,956	114,581	168,865	176,721
Interest from participant notes receivable	-	-	-	-
Other	-	-	22	-
Total increase, net of realized and unrealized gains and losses	1,790,522	1,487,992	4,196,447	3,568,848
Decrease				
Benefits paid to participants	266,068	308,879	712,842	873,697
Loans to participants	355,677	108,463	154,955	174,776
Loan defaults	-	-	-	-
Participants' note and administrative fees	4,010	2,718	14,078	13,339
Total decrease	625,755	420,060	881,875	1,061,812
Net (Decrease) Increase Prior to Interfund Transfers				
	1,164,767	1,067,932	3,314,572	2,507,036
Interfund Transfers				
	(756,292)	(476,252)	(1,080,852)	(1,662,094)
Net Incease (Decrease)				
	408,475	591,680	2,233,720	844,942
Net Position				
Beginning of year	5,736,285	5,144,605	15,276,741	14,431,799
End of year	<u>\$ 6,144,760</u>	<u>\$ 5,736,285</u>	<u>\$ 17,510,461</u>	<u>\$ 15,276,741</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	
	2014	2013
Increase		
Investment income:		
Net appreciation (depreciation) in fair value of investments	\$ 17,298,578	\$ 12,248,432
Interest income	-	-
Dividend income	5,385,023	3,110,985
Employer contributions	4,753,661	4,763,700
Participant rollover contributions	372,012	1,287,440
Loan repayments	1,437,471	1,441,386
Interest from participant notes receivable	-	-
Other	105	226
Total increase, net of realized and unrealized gains and losses	29,246,850	22,852,169
Decrease		
Benefits paid to participants	5,115,346	5,628,469
Loans to participants	1,686,037	1,609,521
Loan defaults	-	-
Participants' note and administrative fees	85,055	74,154
Total decrease	6,886,438	7,312,144
Net (Decrease) Increase Prior to Interfund Transfers	22,360,412	15,540,025
Interfund Transfers	(1,799,804)	(2,743,032)
Net Increase (Decrease)	20,560,608	12,796,993
Net Position		
Beginning of year	109,882,178	97,085,185
End of year	<u>\$ 130,442,786</u>	<u>\$ 109,882,178</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	
	2014	2013	2014	2013
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 609,278	\$ 695,952	\$ -	\$ (19,748)
Interest income	-	-	160,691	-
Dividend income	-	-	-	-
Employer contributions	714,164	730,401	-	-
Participant rollover contributions	681,866	1,108,253	-	-
Loan repayments	233,842	235,983	-	-
Interest from participant notes receivable	-	-	-	-
Other	114,887	110,198	-	-
Total increase, net of realized and unrealized gains and losses	2,354,037	2,880,787	160,691	(19,748)
Decrease				
Benefits paid to participants	2,529,770	3,468,740	-	-
Loans to participants	122,602	255,109	-	-
Loan defaults	-	-	-	-
Participants' note and administrative fees	11,100	9,824	-	-
Total decrease	2,663,472	3,733,673	-	-
Net Increase (Decrease) Prior to Interfund Transfers	(309,435)	(852,886)	160,691	(19,748)
Interfund Transfers	1,673,053	2,549,452	126,751	193,580
Net Increase (Decrease)	1,363,618	1,696,566	287,442	173,832
Net Position				
Beginning of year	32,243,585	30,547,019	859,599	685,767
End of year	<u>\$ 33,607,203</u>	<u>\$ 32,243,585</u>	<u>\$ 1,147,041</u>	<u>\$ 859,599</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	
	2014	2013	2014	2013
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ -	\$ -	\$ 17,907,856	\$ 12,924,636
Interest income	-	-	160,691	-
Dividend income	-	-	5,385,023	3,110,985
Employer contributions	-	-	5,467,825	5,494,101
Participant rollover contributions	-	-	1,053,878	2,395,693
Loan repayments	(1,671,313)	(1,677,369)	-	-
Interest from participant notes receivable	155,997	139,026	155,997	139,026
Other	-	-	114,992	110,424
Total increase, net of realized and unrealized gains and losses	(1,515,316)	(1,538,343)	30,246,262	24,174,865
Decrease				
Benefits paid to participants	-	-	7,645,116	9,097,209
Loans to participants	(1,808,639)	(1,864,630)	-	-
Loan defaults	119,694	120,280	119,694	120,280
Participants' note and administrative fees	-	-	96,155	83,978
Total decrease	(1,688,945)	(1,744,350)	7,860,965	9,301,467
Net Increase (Decrease) Prior to Interfund Transfers	173,629	206,007	22,385,297	14,873,398
Interfund Transfers	-	-	-	-
Net Increase (Decrease)	173,629	206,007	22,385,297	14,873,398
Net Position				
Beginning of year	3,909,080	3,703,073	146,894,442	132,021,044
End of year	<u>\$ 4,082,709</u>	<u>\$ 3,909,080</u>	<u>\$ 169,279,739</u>	<u>\$ 146,894,442</u>

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

**Financial Report
with Required Supplemental Information**

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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 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, 2014 and 2013 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
Plan for Employees' Pension of the Board of Water and Light -
City of Lansing, Michigan - Defined Benefit Plan
City of Lansing, Michigan

Opinion

In our opinion, the 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014, the Plan adopted GASB Statement Number 67, *Financial Reporting for Pension Plans*. As a result, these financial statements contain significant new disclosures. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

September 2, 2014

Draft

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:

	2014	2013	2012
Assets held in trust:			
Money market collective trust fund	\$ 3,192,936	\$ 3,209,522	\$ 2,739,466
U.S. government obligations	7,354,686	8,301,126	7,954,894
Corporate bonds and notes	11,844,906	12,168,664	12,793,539
Mutual funds	1,260,129	1,171,547	1,127,599
Common stock	56,770,168	50,459,178	48,573,963
Alternative investments	-	-	245,024
Interest and dividend receivable	120,156	113,980	132,512
Total assets held in trust	<u>\$ 80,542,981</u>	<u>\$ 75,424,017</u>	<u>\$ 73,566,997</u>
Liabilities - Accrued liabilities	\$ 13,000	\$ -	\$ -
Net position restricted for pension	<u>80,529,981</u>	<u>75,424,017</u>	<u>73,566,997</u>
Total liabilities and net position	<u>\$ 80,542,981</u>	<u>\$ 75,424,017</u>	<u>\$ 73,566,997</u>
Changes in net position:			
Net investment income (loss)	\$ 14,243,164	\$ 10,169,847	\$ (543,523)
Benefits payments	(8,541,275)	(7,777,260)	(8,259,828)
Administrative fees	(595,925)	(535,567)	(570,810)
Net change in net position	<u>\$ 5,105,964</u>	<u>\$ 1,857,020</u>	<u>\$ (9,374,161)</u>

During fiscal year 2014, net investment gain was \$14.2 million. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

Employer contributions were \$0 in fiscal year 2014 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.

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

Management's Discussion and Analysis (Continued)

Benefits payments in fiscal year increased by \$0.76 million to \$8.5 million. This was due to an increase in funds distributed in the form of lump-sum payouts upon retirement in fiscal year 2014 as compared to fiscal year 2013.

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 2014, 2013, and 2012, 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, 2014 saw a net investment gain of \$13.6 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 116 percent. This funding level results in an annual pension cost of \$0 for fiscal year 2014. The board does not expect to make contributions to the trust in fiscal year 2015.

The Plan expects to make annual withdrawals of approximately \$8,000,000 to cover participant benefits.

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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 Susan Devon, Chief Administrative and Technology Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

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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	
	2014	2013
Assets		
Investments at fair value:		
Cash and money market trust fund	\$ 3,192,936	\$ 3,209,522
U.S. government obligations	7,354,686	8,301,126
Corporate bonds and notes	11,844,906	12,168,664
Mutual funds	1,260,129	1,171,547
Common stocks	56,770,168	50,459,178
Total investments at fair value	80,422,825	75,310,037
Receivable - Investment interest receivable	120,156	113,980
Total assets	80,542,981	75,424,017
Liabilities - Accrued liabilities	13,000	-
Net Position Restricted for Pensions	\$ 80,529,981	\$ 75,424,017

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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	
	2014	2013
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 12,570,312	\$ 8,364,770
Interest and dividend income	1,672,852	1,805,077
Total investment income	14,243,164	10,169,847
Deductions		
Retiree benefits paid	8,541,275	7,777,260
Administrative expenses	595,925	535,567
Total deductions	9,137,200	8,312,827
Net Increase in Fiduciary Net Position	5,105,964	1,857,020
Fiduciary Net Position		
Beginning of year	75,424,017	73,566,997
End of year	<u>\$ 80,529,981</u>	<u>\$ 75,424,017</u>

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

**Notes to Financial Statements
June 30, 2014 and 2013**

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 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.

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

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenses - Substantially all costs and expenses incurred in connection with the operation and administration of the are paid by the BWL, the plan sponsor. The 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.

Change in Accounting - During the current year, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the notes below have changed considerably along with the related schedules in the required supplementary information.

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.

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

Notes to Financial Statements June 30, 2014 and 2013

Note 2 - Plan Description (Continued)

Plan Membership - At February 28, 2014 and 2013 (the most recent actuarial valuation for funding purposes), plan membership consisted of the following:

	<u>2014</u>	<u>2013</u>
Inactive plan members or beneficiaries		
currently receiving benefits	413	423
Inactive plan members entitled to but not yet receiving benefits	9	10
Active plan members	<u>17</u>	<u>24</u>
Total	<u><u>439</u></u>	<u><u>457</u></u>

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 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 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.

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

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 2 - Plan Description (Continued)

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, 2013 and 2014. Plan documents do not require participant contributions.

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, 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.

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

Notes to Financial Statements June 30, 2014 and 2013

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

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:

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

Notes to Financial Statements
June 30, 2014 and 2013

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

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	B+	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.

Risks at June 30, 2013

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.

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

Notes to Financial Statements June 30, 2014 and 2013

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

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	\$ 8,301,126	12.24 years
Corporate bonds	12,168,664	14.68 years
Money market trust fund	3,140,926	Less than 1 year

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	\$ 8,301,126	Not Rated	Not Rated
Corporate bonds	1,666,525	AAA	S&P
Corporate bonds	4,286,565	AA+	S&P
Corporate bonds	106,957	AA	S&P
Corporate bonds	251,090	AA-	S&P
Corporate bonds	855,381	A+	S&P
Corporate bonds	891,603	A	S&P
Corporate bonds	1,359,381	A-	S&P
Corporate bonds	403,491	BBB+	S&P
Corporate bonds	938,874	BBB	S&P
Corporate bonds	566,706	BBB-	S&P
Corporate bonds	128,938	BB	S&P
Corporate bonds	113,726	BB+	S&P
Corporate bonds	31,800	BB-	S&P
Corporate bonds	58,013	B	S&P
Corporate bonds	24,975	B-	S&P
Corporate bonds	484,639	CCC	S&P
Money market trust fund	3,140,926	Not Rated	Not Rated

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

Notes to Financial Statements June 30, 2014 and 2013

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

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.

Note 4 - Net Appreciation or Depreciation of Investments

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

	2014	2013
Investments at fair value as determined by quoted market price:		
U.S. government obligations	\$ 90,724	\$ (370,817)
Corporate bonds and notes	195,217	119,447
Mutual funds	200,285	671,569
Common stocks and mutual funds	12,031,656	7,926,166
Alternative investments	52,430	18,405
Total	<u>\$ 12,570,312</u>	<u>\$ 8,364,770</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, 2014 and 2013, there were no excess pension plan assets available for transfer.

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

Notes to Financial Statements June 30, 2014 and 2013

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. The Plan has since been amended. Management believes the continues to operate as a qualified plan.

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, 2014 and 2013:

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, 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.

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

Notes to Financial Statements June 30, 2014 and 2013

Note 8 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2014 and 2013 were as follows (in thousands):

	2013	2014
Total pension liability	\$ 69,341	\$ 67,280
Plan fiduciary net position	80,530	75,424
Plan's net pension asset	<u>\$ (11,189)</u>	<u>\$ (8,144)</u>
Plan fiduciary net position, as a percentage of the total pension liability	\$ 1.16	112.10%

Actuarial Assumptions - 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 total pension liability as of June 30, 2013 (beginning balance) was also determined as a part of this valuation. The valuation used 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%

The most recent experience review was completed in 2014. Since the Plan only covers 17 active participants, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed. The mortality table was updated to 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.

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

**Notes to Financial Statements
June 30, 2014 and 2013**

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

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.

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, 2014 and 2013 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%
Real estate	5.00%

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

Notes to Financial Statements
June 30, 2014 and 2013

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

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following presents the net pension asset of the BWL, 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 liability (asset) of the BWL (in thousands)	\$ (5,315)	\$ (11,189)	\$ (16,603)

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Required Supplemental Information

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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)

	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Total Pension Liability										
Service cost	\$ 349	\$ 407	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	4,751	5,085	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	964	(1,716)	-	-	-	-	-	-	-	-
Changes in assumptions **	4,538	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,541)	(7,777)	-	-	-	-	-	-	-	-
Net Change in Total Pension Liability	2,061	(4,001)	-	-	-	-	-	-	-	-
Total Pension Liability - Beginning of year	67,280	71,281	-	-	-	-	-	-	-	-
Total Pension Liability - End of year	69,341	67,280	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	14,243	10,170	-	-	-	-	-	-	-	-
Administrative expenses	(596)	(536)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,541)	(7,777)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Plan Fiduciary Net Position	5,106	1,857	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of year	75,424	73,567	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - End of year	80,530	75,424	-	-	-	-	-	-	-	-
BWL Net Pension Asset - Ending	\$ (11,189)	\$ (8,144)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan Fiduciary Net Position as a % of Total Pension Liability	116.14%	112.10%	- %	- %	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	1,225	1,684	-	-	-	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(913%)	(484%)	- %	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2005 - 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

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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)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 86	\$ 2,109	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	86	2,109	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	1,225	1,684	2,101	2,398	2,660	3,089	3,162	3,391	3,942	4,142
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	3.59%	79.29%	- %	- %	- %	- %	- %

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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, 2014

Actuarial valuation information relative to the determination of contributions:

Valuation date February 28, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
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

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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

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Annual money-weighted rate of return, net of investment expense	19.18%	- %	- %	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2005 - 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

Lansing Board of Water and Light Retiree Benefit Plan and Trust

**Financial Report
with Required Supplemental Information
June 30, 2014**

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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 financial statements of Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan") as of and for the years ended June 30, 2014 and 2013 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 Retiree Benefit
Plan and Trust

Opinion

In our opinion, the 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, 2014 and 2013 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 on 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 & Moran, PLLC

September 2, 2014

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:

	2014	2013	2012
Assets held in trust:			
Cash and money market trust funds	\$ 5,711,439	\$ 8,498,919	\$ 6,666,106
Corporate bonds and notes	20,713,869	19,321,385	18,602,251
Government bonds and notes	16,284,339	13,019,316	12,723,224
Equities	108,540,537	86,128,263	69,522,814
Mutual funds and other	2,259,641	1,950,935	1,961,220
Interest and dividend receivable	211,625	185,624	194,729
Total plan assets	<u>\$ 153,721,450</u>	<u>\$ 129,104,442</u>	<u>\$ 109,670,344</u>
Changes in net position:			
Net investment income (loss)	\$ 25,667,779	\$ 15,711,575	\$ (405,257)
Employer contributions	9,266,529	14,045,204	15,854,530
Retiree benefits paid	(9,266,529)	(9,524,120)	(9,416,763)
Administrative fees	(1,050,771)	(798,561)	(747,493)
Net change in net position	<u>\$ 24,617,008</u>	<u>\$ 19,434,098</u>	<u>\$ 5,285,017</u>

During fiscal year 2014, net investment gains were \$25.7 million. We believe this performance is in line with the overall level of returns experienced by similarly situated institutional investors.

The employer contributions were down by \$4.8 million due to the decrease in the Board of Water and Light - City of Lansing, Michigan's (the "BWL") annual required contribution (ARC) as determined by the BWL's actuary.

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, 2014 saw a net investment gain of \$24.6 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 Susan Devon, Chief Administrative and Technology 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	
	2014	2013
Assets		
Investments - Fair value:		
Cash and money market trust funds	\$ 5,711,439	\$ 8,498,919
Corporate bonds and commercial paper	20,713,869	19,321,385
Government bonds and notes	16,284,339	13,019,316
Equities	108,540,537	86,128,263
Mutual funds	2,259,641	1,950,935
Total investments at fair value	153,509,825	128,918,818
Investment interest and dividend receivable	211,625	185,624
Trust Net Position	\$ 153,721,450	\$ 129,104,442

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Statement of Changes in Trust Net Position

	Year Ended June 30	
	2014	2013
Increase		
Investment income:		
Net appreciation in fair value of investments	\$ 22,774,150	\$ 12,938,049
Interest and dividend income	2,893,629	2,773,526
Total investment income	25,667,779	15,711,575
Employer contributions	9,266,529	14,045,204
Total increase	34,934,308	29,756,779
Decrease		
Retiree benefits paid	9,266,529	9,524,120
Administrative expenses	1,050,771	798,561
Total decrease	10,317,300	10,322,681
Net Increase in Trust Net Position	24,617,008	19,434,098
Net Position		
Beginning of year	129,104,442	109,670,344
End of year	<u>\$ 153,721,450</u>	<u>\$ 129,104,442</u>

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2014 and 2013

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 698 participants eligible to receive benefits at June 30, 2014 and 692 participants eligible at June 30, 2013.

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, 2014 and 2013, the cost to BWL of maintaining the Retiree Benefit Plan was \$9,266,529 and \$14,045,204, respectively, of which \$0 and \$4,521,084 was contributed to the VEBA trust and \$9,266,529 and \$9,524,120, respectively, 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, 2014 and 2013

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, 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 152 surviving spouses participating in the Plan. At June 30, 2013, there were 681 active participants (not eligible to receive benefits), 82 disabled participants, 457 retired participants, 488 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 Lansing Board of Water and Light. At no time will benefits of the Postretirement Benefit Plan for Eligible Employees of 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, 2014 and 2013

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 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, 2014 and 2013

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
6/30/2012	\$ 15,774	\$ 15,854	101%
6/30/2013	13,994	14,045	100%
6/30/2014	9,202	9,268	101%

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, 2014 and 2013 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
2/29/2012	\$ 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%

Lansing Board of Water and Light Retiree Benefit Plan and Trust

Notes to Financial Statements June 30, 2014 and 2013

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, 2014 and 2013.

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, 2014 and 2013

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, 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 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	\$ 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, 2014 and 2013**

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	\$ 2,592,281	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, 2014 and 2013**

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

Risks at June 30, 2013

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	\$ 13,019,316	12.14 years
Corporate bonds and notes	19,321,385	14.67 years
Money market trust funds	5,679,922	Less than 1 year

Lansing Board of Water and Light Retiree Benefit Plan and Trust

**Notes to Financial Statements
June 30, 2014 and 2013**

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	\$ 2,665,293	AAA	S&P
Corporate bonds	7,164,975	AA+	S&P
Corporate bonds	313,858	AA	S&P
Corporate bonds	358,219	AA-	S&P
Corporate bonds	998,377	A+	S&P
Corporate bonds	1,250,910	A	S&P
Corporate bonds	2,074,030	A-	S&P
Corporate bonds	736,143	BBB+	S&P
Corporate bonds	1,671,545	BBB	S&P
Corporate bonds	549,653	BBB-	S&P
Corporate bonds	181,288	BB+	S&P
Corporate bonds	225,628	BB	S&P
Corporate bonds	224,763	BB-	S&P
Corporate bonds	19,350	B+	S&P
Corporate bonds	121,588	B	S&P
Corporate bonds	229,346	B-	S&P
Corporate bonds	488,732	CCC	S&P
Corporate bonds	47,687	D	S&P
Money market trust funds	5,679,922	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, 2014 and 2013

Note 4 - Net Appreciation of Investments

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

	<u>2014</u>	<u>2013</u>
Investments at fair value as determined by quoted market price:		
Corporate bonds and notes	\$ 451,415	\$ 284,652
Government bonds and notes	188,304	(576,489)
Equities	21,775,370	12,211,563
Alternative investments	40,441	15,276
Mutual funds	<u>318,620</u>	<u>1,003,047</u>
Total	<u>\$ 22,774,150</u>	<u>\$ 12,938,049</u>

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.

Required Supplemental Information

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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
2/28/2007	\$ 52,335	\$ 198,005	\$ 145,670	26.43%
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%

AAL - Actuarial accrued liability (projected unit credit accrued liability)

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	
6/30/2007	\$ 17,867	\$ 18,090	101%
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%

ARC - Annual required contribution