



LANSING BOARD OF WATER AND LIGHT BOARD OF COMMISSIONERS
FINANCE COMMITTEE MEETING via WEBEX

AGENDA

September 8, 2020

6:00 P.M. – 1201 S. Washington Ave., Lansing, MI 48910

The BWL full meeting packet and public notice/agenda is located on the official web site at <https://www.lbw.com/about-bwl/governance>.

Due to public safety concerns resulting from the COVID-19 Pandemic, this meeting will be conducted via WebEx Conferencing. Instructional options to be in attendance are as follows:

1. Event address:

<https://lbwlevents.webex.com/lbwlevents/onstage/g.php?MTID=eadd464116dfea782027d3caff56f5453>

Event number: 132 586 9067 Event Password: h2rTdShJA26


2. Audio conference: United States Toll +1-408-418-9388 Access code: 132 586 9067

Call to Order

Roll Call

Public Comments on Agenda Items

Public Comment (PC) can be made by choice of:

- Raising your hand by clicking on the hand icon button  in the **Participants** panel
- Submitting written comments to mdenise.griffin@lbwl.com (By the End of Public Comment)
- Submitting written comments to 1201 S. Washington Ave., Lansing, 48910

1. Finance Committee Meeting Minutes of July 21, 2020TAB 1

2. Tabled Item from July 21, 2020: Proposed Internal Audit CharterTAB 2

 a. Redlined Internal Audit Charter

 b. Resolution

3. Baker Tilly External Audit ReportTAB 3

 a. Report to Governing Body

 b. Lansing Board of Water and Light Audited Financial Statements

- c. Defined Benefit Plan Audited Financial Statements
- d. Defined Contribution Plan Audited Financial Statements
- e. Post Retirement Benefit Plan Audited Financial Statements
- f. Resolution - Acceptance of the 2020 Audited Financial Statements

- 4. July YTD Financial Summary**INFO ONLY**
- 5. Capital Project Exceedance Revision – Redlined Resolution**TAB 4**
 - a. Clean Resolution
- 6. Internal Audit Status Report.....**TAB 5**

Other

Adjourn

Persons with disabilities who need an accommodation to fully participate in this meeting should contact the Office of the BWL Corporate Secretary at (517) 702-6033 or mdenise.griffin@lbwl.com, or utilize TTY by dialing 7-1-1 (7-1-1 is the statewide **telephone** relay number that connects deaf, deaf-blind, hard of hearing, and/or speech impaired people who use text telephones (**TTYs**) with standard (voice) **telephone** users). A 24-hour notice may be needed for certain accommodations. An attempt will be made to grant all reasonable accommodation requests.

EXECUTIVE ORDER No. 2020-48: “Temporary authorization of remote participation in public meetings and hearings and temporary relief from monthly meeting requirements for school boards.” Section 1.a “A meeting of a public body may be held electronically, including by telephonic conferencing or video conferencing, in a manner in which, both the general public and the members of the public body may participate by electronic means.”

**A quorum of the Board of Commissioners may be in attendance. Actions and Motion will be considered by the Finance Committee Members only.*

FINANCE COMMITTEE Meeting Minutes July 21, 2020

Due to public safety concerns resulting from the COVID-19 Pandemic, the Finance Committee meeting for the Lansing Board of Water and Light (BWL) was conducted via WebEx Conferencing in Lansing, MI, at 5:00 p.m. on Tuesday, July 21, 2020.

Finance Committee Chair Ken Ross, called the meeting to order at 5:00 p.m. and asked Corporate Secretary Griffin for the roll call.

Present: Commissioners Ken Ross, David Lenz, Tony Mullen, and David Price. Also, present: Commissioners Beth Graham, Tracy Thomas (arrived @5:33 p.m.), Sandra Zerkle (arrived @5:33 p.m.) and Non-Voting Commissioners Douglas Jester (East Lansing) and Larry Merrill (Delta Township (arrived at 5:36 p.m.)

Absent: None.

The Corporate Secretary declared a quorum.

Public Comments

None.

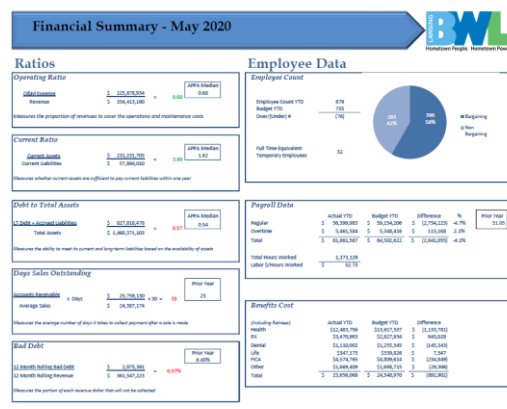
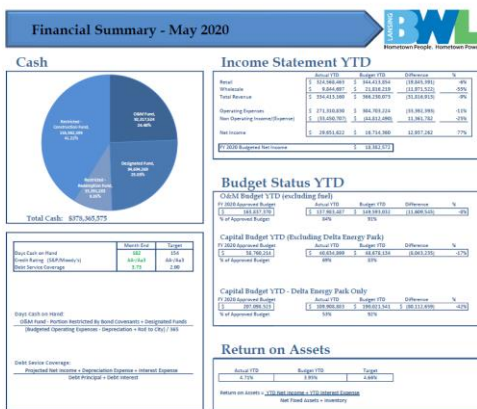
Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Mullen, to approve the Finance Committee meeting minutes of May 26, 2020.

Approval: Motion Carried

May YTD Financial Summary

Chief Financial Officer (CFO), Ms. Heather Shawa, presented the following Year to Date Financial Review:



Total cash decreased by approximately \$21.2M from the previous month. This is primarily due to Delta Energy Park (DEP) Pipeline and Construction Manager payments. Restricted construction funds will continue to decrease each month as the 2019A bond proceeds are spent down to pay for the construction of Delta Energy Park and other system improvements.

May YTD actual net income of \$29M is about \$13M over budget, primarily due to under budget expenses. Wholesale revenue is about \$12M under budget FYTD. This is primarily due to Belle River's Units 1 and 2 going into an unplanned outage, as well as Erickson transferring offline due to market/economic conditions. These factors will continue to cause wholesale revenues to fall further under budget over the remainder of the year. This, as well as the lower power supply costs, flow through the PSCR and will result in little impact to net income. As the fiscal year progresses, operating expenses have historically trended closer to budget. As noted previously, the VEBA credit adjustment is cumulative and represents \$9.5M. Nonoperating income is over budget. This is mostly due to unrealized investment returns FYTD and interest savings from the 2019A and 2019B bond issuances.

FY 2020 YTD O&M spend is about \$11.6M under budget. Again, \$9.5M of this is due to the VEBA credit adjustment. Although FY 2020 YTD capital spend was 17% below budget in May, current projections indicate we will finish closer to budget, projecting 10% spending variance. Impacts or delays related to COVID-19 are continually being evaluated. FY 2020 YTD DEP spend remains under budget through May. Many of the mechanical bid packages that were scheduled to be awarded in Q1 of FY20 have now been awarded. As work kicked off under these contracts, it was expected that expenses would begin to catch up to budget during Q3-Q4 of FY20; however, delays related to COVID-19 have impacted our ability to catch up as much as previously anticipated. The extent of the impact is still being evaluated; however, construction levels have increased, albeit slowly due to COVID-19 safety restrictions. The actual Return on Assets (RoA) of 4.71% exceeds our budgeted RoA of 3.95%, as YTD net income remains over budget.

Three out of five ratios are slightly below the benchmark. Debt to total assets is currently underperforming due to the new debt of issuance of the 2019A bonds. It will increase again slightly as we complete the third phase of financing for Delta Energy Park before decreasing as we pay off outstanding debt. Days Sales Outstanding is not beating its benchmark for May and will continue to increase in June due to customer protections during COVID that have been instituted, including suspension of late fees and a moratorium on shut-offs. The Bad Debt ratio is also likely to increase due to customer protections that have been put in place during COVID. BWL has expanded the payment arrangement program which will help minimize the amount of accumulated balances that will go uncollected.

Employee count YTD of 679, while our current FY21 budgeted headcount is 727, a variance of 48. This is being supplemented by 32 full time temporary/contract employees, including summer interns. The budgeted headcount remained higher through May due to the addition of the 12 First Step students and 15 summer interns.

The Labor \$/Hours Worked metric has continued to decline from last month. This is in line with the prior year's trend; however, much of the decline can be attributed to reduced labor hours, which is comparative to the previous fiscal year. FYTD 2020 Benefits costs remain close to budget, although the underbudget difference did increase slightly from the previous month by about \$100K primarily due to under budget dental costs.

Internal Audit Open Management Responses Update

Finance Manager, Mr. Scott Taylor, introduced new Finance employee, Ms. Elisha Franco, Senior Internal Control Analyst. Mr. Taylor presented the updates to the internal audit management responses.

Follow-up to Internal Audit Findings & Recommendations
Finance Committee 7/21/20

Resolution #2018-07-09 Board Policy on Follow-up to Internal Audit Findings & Recommendations

- Internal Audit
 - Perform audits, report findings, provide recommendations, record management's response, verify completion of corrective actions
- Management
 - Respond to findings and recommendations, identify and execute appropriate and timely corrective actions
- Follow-up of Open Management Responses to Audit Findings
 - An open action items list is maintained for progress tracking
 - Management reports progress to the Finance Committee semi-annually (Jan & July)

Open Actions

- Procurement
 - Improve controls related to maintenance of vendor information - initial ECD (Expected Completion Date) 6/30/20, revised ECD 8/31/20, delay primarily due to recent staffing change
 - Completed action - accounts payable procedures have been updated; if of employees who collecting and/or have been trained from 11 to 1; purchasing manager has begun conducting weekly review of vendor change
 - Remaining action - develop purchasing procedures for adding, disabling, and deleting vendors, # of employees with conflicts of interest reduced from 1 to 0
 - Standardize and centralize storage of purchasing documentation - ECD 10/31/20
 - Completed action - processes and procedures within the purchasing department have been revised to ensure that all purchasing documents are stored in a centralized manner
 - Remaining action - processes and procedures within departments related to the purchasing department must be revised to ensure that all their purchasing documents are stored in a centralized manner

Open Actions (continued)

- Cash Management & Treasury (new)
 - Improve controls surrounding daily accounts payable disbursements - ECD 12/31/20
 - Completed action - additional review of disbursements has begun
 - Remaining action - finalize a more complete resolution including possible additional report development dependent upon IT entry developer availability, review designation, and more formalized documentation of review procedures
 - Establish more centralized and comprehensive transaction approval documentation for significant transactions - ECD 9/30/20
 - Remaining action - detailed review of existing review documents, finalize additional documentation as needed, consolidate and make available in a centralized manner

Closed Actions

- Succession Planning
 - Identify all critical positions as soon as possible - ECD 12/31/18, actual completion date 4/30/20, delay primarily due to reexamination of process for identifying critical positions and staff retirement
 - all positions reviewed, identified top 20 overall, top 20 management and above, top 20 bargaining, and top 20 non-bargaining
 - Review and update policy and procedures - ECD 6/30/18, actual completion date 6/30/20, delay also primarily due to reexamination of process for identifying critical positions and staff retirement
- Vegetation Management
 - Discuss current practice with internal experts to ensure best practice - ECD 7/31/20, actual completion date 6/30/20
 - added weekly progress meetings, began updating monthly budget spreadsheets as quarter sections are planned out, communication strategies improved to better mitigate customer and government agency concerns, utilizing additional cost tracking info, added a safety officer for inspections and other needs

Closed Actions (continued)

- Cybersecurity Policies
 - Update the communications technology policy to better address cyber security - ECD 12/31/19, actual completion date 5/28/20
- Procurement
 - Review the cost vs benefit of SAP programming changes to modify the approval process - ECD 6/30/20, actual completion date 6/30/20
 - SAP changes were determined to be cost prohibitive however additional internal control in the form of quarterly review reports will be conducted at the purchase order level to mitigate risk
 - Improve controls and documentation related to sole source justifications and exclusions - ECD 8/30/20, actual completion date 6/30/20
 - Standard operation procedures related to sole source justification and documentation of exclusions were formalized and implemented

Closed Actions (continued)

- Cash Management & Treasury (new)
 - Ensure that bank and investment account reconciliations have evidence of review and approval from superior and allow for a degree to perform when appropriate - ECD 5/31/20, actual completion date 7/18/20
 - The general accounting manual and procedures were updated to allow for a manager review and to clarify the requirements for documentation of review and approval
 - Policies and procedures regarding online bank portal entitlements should be formalized and controls over online template creation should be enhanced - ECD 6/30/20, actual completion date 7/18/20
 - The procedure for obtaining and submitting online bank portal entitlements has been expanded and formalized, # of flags has continued to rise, template creation has been enabled as requested

Chair Ross inquired how flagged items on the internal audit are removed from the list. Mr. Taylor responded that meetings are held with the department that has closed an item, he or Ms. Franco will verify that the flagged item has been addressed and completed, forward the item to the Internal Auditor for his confirmation and then forward the item to the Commissioners as completed.

Commissioner Mullen asked about succession planning regarding equity and inclusion items. Mr. Taylor responded that he would follow up with an email to Commissioner Mullen

Commissioner Lenz asked what the requirements are for sole source procurement in dollar amount or percentage. CFO Heather Shawa responded that, for any purchase over \$15,000 that is not an emergent need, a form is completed by the requestor and is reviewed by the department manager, executive director, purchasing manager and CFO.

Internal Audit Status Report & Internal Audit Work Plan

Internal Auditor, Mr. Wesley Lewis, presented the internal audit status report and internal audit work plan.



Overview

FY 2020 Audit Plan Progress Report

Internal Audit Status Report

Presented by:
Wesley Lewis
Director of Internal Audit
Finance Committee Meeting
July 21, 2020

- FY 2020 Audit Plan Progress Report
- Proposed FY 2021 Audit Plan
- Proposed Revised Audit Charter
- Action Items

Engagements Completed:

1. Cash Management and Treasury
2. Fixed Assets

Engagement in Progress:

1. Energy Risk Management

Proposed FY 2021 Audit Plan - Background

Basis for Plan:

1. Feedback was requested and received from Senior and Middle Management, including confirmation of the audit universe consisting of fifteen major business areas.
2. Risk assessment was conducted by inputting the audit universe information and feedback into our new audit management system. Risk scores were assigned to each of the major business areas, total scores were calculated, then each area was risk ranked. The top six areas were selected and included in the audit plan.
3. One business process in each of the top six major business areas was selected for inclusion in the audit plan. Consideration was given to rotational audits, business processes that hadn't been audited in more than two fiscal years, and business processes that have never been audited.
4. Other types of engagements were considered and budgeted hours are included in the audit plan accordingly.

Proposed FY 2021 Audit Plan – Highlights

Top Six Engagements for FY 2021 (as discussed and agreed with Senior Management):

1. **Information Technology – Cybersecurity Process (First Time Audit)**
2. **Corporate Governance – BWL Strategic Plan and Hotline (First Time Audit)**
3. **Purchasing – Purchase Card (P-Card) Usage and Control**
4. **Revenue and Accounts Receivable – Unbilled Accounts Receivable (First Time Audit)**
5. **BWL Other - IT Vulnerability Assessments (Combine with Cybersecurity in #1 above) (First Time Audit)**
6. **Reliability Compliance & Market Operations – MPPA and MISO Billings**

Proposed FY 2021 Audit Plan Details

Planned Audits:	Estimated Hours
Information Technology – Cybersecurity Process	400
Corporate Governance – BWL Strategic Plan and Hotline	500
Purchasing - P-Cards	400
Revenue and Accounts Receivable – Unbilled Accounts Receivable	500
BWL Other – IT Vulnerability Assessments	400
Reliability Compliance and Market Operations – MPPA and MISO Billings	300
Other Engagements and Projects:	
Ongoing Management Assistance, (including Proactive Audit Engagements)	400
New Customer Information System: Pre-Implementation Audit	300
Special Projects and Requests	300
Total Required Hours	3,500

Proposed Revised Audit Charter

The purpose of the proposed revised audit charter is to do the following:

1. Reinforcement of Internal Audit's Free Access To Data, Books, and Records
2. Clarify Relationship Between The Internal Auditor and the General Manager
3. Introduction of Proactive Audits Concept

Reinforcement of Internal Audit's Free Access To Books and Records:

- Besides free access being ongoing and unfettered. This enables Internal Audit to meet and maintain its independence and objectivity required by the Institute of Internal Auditors (IIA) Professional Standards, and the non-conforming standards of other supporting organizations (ISACA, ACFE, and AICPA). It also enables it to be the independent, objective assurance, and consulting function required by the standards. And, it can decrease the amount of time needed to obtain the same information in separate request to the business.
- The role of Internal Audit's access is also supported in applicable laws and regulations (i.e., the HIPAA Law of 1996, Sections 1178 and 1179). Compliance with the privacy and security requirements of the laws and regulations pertaining to the access of Internal Audit and others is mandated by those entities, along with the Board of Commissioners.

Proposed Revised Audit Charter (Cont'd)

Clarify Relationship Between The Internal Auditor and the General Manager:

- Internal Audit reports directly to the Board of Commissioners, but must successfully collaborate, establish, encourage, maintain, cultivate its ongoing relationship with the General Manager, management, employees, and all other stakeholders at the BWL, and vice versa.
- The short and long-term success of the BWL is dependent upon this.

Proposed Revised Audit Charter (Cont'd)

Introduction of Proactive Audits Concept:

- Proactive audits is a mindset of approaching audits with the value set in mind.
- The concept is to emphasize the need for Internal Audit to be proactive, which is required in the standards (see the IIA standard below). This is something that the industry is and has been moving forward on. And, it's not a separate type of auditing per se.
- Using information analytics and other audit and analysis tools, in a non-traditional and non-conventional way, to proactively look for potential issues that could represent major risks to the BWL, and to communicate the results to management right away for their timely review and action is a very good program to implement.
- Our ACE Information Analytics tool can be used to look for and identify any potential errors or irregularities that may be present in information and data. And, ACE will add the characteristics of our data into its profile for analysis going-forward (artificial intelligence). This is forward-looking, preventative, and can be predictive.

(IIA) Standard #2100 (Nature of Work)

- "The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact." IIA International Professional Practices Framework (IPPF) – 2011 Edition

Proposed Revised Audit Charter (Cont'd)

Importance: BWL needs to be able to analyze and identify errors and/or irregularities that may be present in information and data, proactively to determine if they possibly pose potential, major risks that management needs to take action on right away to either eliminate or effectively mitigate. This may be unlikely in the execution of more traditional internal audit engagements, which tend to be reactive looking, detective, and capture past snapshots in time.

Benefits and Value Adds of Proactive Audits:

- IA will be able to report errors and/or any irregularities found in information and data to management in a more timely fashion for management's review and action. This could help the BWL achieve cost savings and avoid disasters in the short and long-term.
- Examples include the analysis of SAP vendor, customer, and employee master file information, financial transactions (i.e., customer billings and cash receipts, vendor payments, etc.), comparison of all terminated employees and retirees with active user accounts in Active Directory system access, and analysis of other types of information in other BWL information databases that may or may not be interfaced with SAP.
- Provides the foundations for continuous auditing and monitoring.
- Creates additional opportunities for IA and management to work together in collaborative ways to help the BWL meet its short and long-term objectives, which helps to create, maintain, and increase stakeholder value.
- This helps Internal Audit to be more efficient and effective with executing its mission.

Action Items

- Proposed FY 2021 Audit Plan
- Proposed Revised Internal Audit Charter

We recommend the approval of both.

Commissioner Thomas asked whether an audit report was given at the last meeting. Mr. Lewis responded that a fixed assets report was provided. Mr. Lewis will forward a copy of the report to Commissioner Thomas.

Commissioner Merrill asked what audit standards of corporate governance the strategic plan and hotline were measured against. Mr. Lewis responded that policies and procedures would be compared with similar industries and a risk assessment would be conducted.

Chair Ross provided the following questions that will be addressed in the presentation of the Internal Audit Charter:

- Provide background in some specificity on the vendor management program
- The cybersecurity concerns allowing continued access to core data and in what ways the protection of that data is ensured
- What is proactive auditing and why is it needed at the BWL
- What changes are required by the audit profession

- What is required for the program to be immediately implemented and are there consequences if no changes are made to the program
- What activities have been implemented toward the program to date
- What policies and procedures are needed to implement the program
- What other utilities are currently using a similar program
- Whether there is a need for additional management resources for the program and what burdens might the program pose on the BWL organization

Chair Ross stated that the resolution to approve the changes to the Internal Audit Charter would be tabled until the next scheduled Finance Committee meeting after further discussion and reflection to determine whether this program feature is to be integrated into BWL's internal audit program.

Internal Audit Charter and Resolution

Internal Auditor, Wesley Lewis, reviewed the proposed changes in the Internal Audit Charter., walking through the document page by page, and each suggested change in turn.

Chair Ross commented that the draft changes requested by the internal auditor center on three focal areas. The first is to clarify and reinforce that the internal audit department should have free access to data, books, and records in the organization. The second is to clarify the relationship between the internal auditor/department and the general manager/organization. The third is to create a platform to integrate proactive auditing into our audit program. Chair Ross asked about the standards for the internal audit and general manager relationship. Mr. Lewis responded that the standards indicate that the internal auditor is to report to the board of commissioners. Chair Ross inquired whether the issues about the perceived delays in receiving information and having access were centered around the new program not yet in operation or whether any delays in information requested were for audits outlined in the approved audit plan, and Mr. Lewis confirmed that delayed requests concern information sought for the proactive auditing program. Chair Ross stated that the purpose of the proactive auditing program was to make our internal audit process better and the decisions for the committee would be to determine whether the program will be effective and whether to implement the program.

Commissioner Zerkle asked for a definition of a proactive audit and how would the audits be performed differently. Mr. Lewis responded that using the analytics tool will improve the audit process by identifying potential errors or irregularities in information. Commissioner Ross inquired to Mr. Lewis whether if a proactive audit program started tomorrow, would there be a conduit between BWL and the third-party vendor retained and would encrypted data be transmitted to the vendor and processed through the program. Mr. Lewis affirmed but emphasized that the information is processed on an offline server—there would be no direct connection between BWL data systems and the vendor. Mr. Lewis added that the process would be transparent, and information would be reported immediately.

Commissioner Graham commented that it appeared that the program would be a good monitoring tool and make the auditing process smoother and more consistent.

Commissioner Merrill inquired about ACE Information Analytics monitoring data in the background 24/7 generating a flag for potential risks and whether the logarithm formula is

specific to BWL or to a broader model. Mr. Lewis responded that data wouldn't be monitored 24/7 and it isn't specific to BWL, but the enhanced tool would cause work performed to be more timely.

Commissioner Mullen inquired whether all required standards are met by the company when the information is sent to the company and taken off line. Mr. Lewis responded that the standards are met and that the company has to go through four processes – vendor vetting process for purchasing, IT and internal audit; master service agreement (MSA) language; legal process; and cyber security process. Commissioner Mullen also asked if a process is in place with the company to ensure data privacy. Mr. Lewis responded that the company will be monitored based on the nondisclosure clause in BWL's MSA with the company.

Commissioner Ross asked if the company had gone through BWL's vendor management program and if it received the green light to go forward. Mr. Lewis responded that the vendor management program consists of the four processes and the company met the standards.

Commissioner Thomas asked for assurance of BWL data privacy in the cybersecurity process in the proposed program. Mr. Lewis responded that audits of cyber security process and IT vulnerability are in place to be conducted. Commissioner Thomas also asked why references to the General Manager was being removed from the internal audit charter. Mr. Lewis responded that it is to clarify the reporting structure which is indicated in the IAA standards but not to change the interaction between internal audit, the General Manager and the management team.

Commissioner Price commented that a review of governance policies was performed and that the General Manager title was found to be inserted in places where fiduciary responsibility and authority didn't apply. Commissioner Price inquired whether the information under the Organization section was necessary in the charter as it appeared to be a job description and the charter should describe function. Mr. Lewis responded that it was provided for more clarity. Commissioner Lenz commented that qualifications for a BWL auditor should be included in order that audit requirements are safeguarded against any nefarious hiring.

Commissioner Ross asked whether the auditing method was considered continuous auditing. Mr. Lewis responded that there is continuous access to information but not 24/7 auditing of the information.

Commissioner Zerkle asked what the obligation of the audit was to the BWL if the audit program finds an error or discrepancy in the information. Mr. Lewis responded that free audit access to data information would be granted continuously rather than in a case by case scenario. Commissioner Ross commented that there is a need for proper input and advance approval by the Board including prioritization of audit areas, regular reporting updates, and reporting on any findings. and that the reporting of findings is incorporated into the risk rating in the c.

A discussion followed regarding extra verbiage in the charter being unnecessary. Commissioner Graham commented that total transparency is necessary and didn't have a problem with the extra verbiage. Commissioner Lenz suggested having General Counsel Mark Matus review the language.

Commissioner Mullen asked that if the current process is working what makes the new program better for the BWL. Mr. Lewis responded that maintaining compliance and standards, removing the risk that information could be filtered and having an artificial intelligence component is the reason for the new program even though the current program is effective.

Commissioner Jester asked whether proactive auditing could be pursuant to board approved audit topics. Mr. Lewis responded that the new program is to make allowances for unexpected events or changes that may arise. Commissioner Jester asked why three or four topics couldn't be placed in the audit plan. Mr. Lewis responded that some proactive audits are already be conducted – analysis of SAP vendor payments information and a retiree and terminated employees comparison to the active directory.

Commissioner Merrill commented that the term proactive is being defined as something new and different and suggested for clarity, that since every audit conducted should be proactive, changing the terminology to ad hoc. Mr. Lewis responded that proactive audits are required in the standards and there will be ad hoc audit requests.

Commissioner Ross proposed continuing the discussion at the next Finance Meeting and there was an agreeable consensus.

CFO Shawa made a clarification that the access requested is global access to production systems through SAP. When data is requested from IT, the business owner is asked to sign off the request and then a regular IT procedure is followed. CFO Shawa stated that a process on proactive auditing was researched in order to ensure that the process could be maintained and supported by senior leadership and internal control. CFO Shawa wanted the Commissioners to understand that although the data is encrypted when sent out and when returned, it is on an offline server while it is at the third party and there are physical data breach opportunities. Additional security will be required with the offline server when all data is serviced in this manner.

Commissioner Zerkle asked whether there were concerns regarding customer or employee information. CFO Shawa responded that employee sensitive data or HIPAA data would need to be approved.

Commissioner Thomas asked whether negotiating is necessary with the bargaining unit regarding the audit changes. CFO Shawa responded that transparency is expected and that she wanted management to understand what the program and process of the proactive auditing would be like.

General Manager Peffley stated that he wants to see the Internal Audit Charter succeed and has no problem with 24/7 monitoring but would like the monitoring to be transparent and not secretive. GM Peffley commented that there was some concern among employees regarding the employee information that would be audited and the shoulders of employees being looked over, and that transparency in the audit requests is necessary. Commissioner Ross asked whether the audit risk basis, the approval process, the structure for reporting, and the opportunity for management feedback would be the same as current audits. GM Peffley

responded that the process would be the same but the main concern of management was the looking over of their shoulders. Commissioner Ross also asked whether there was assurance that there would be definitive answers to data requests and the internal audit process. Commissioner Ross asked if a grid or visual could be developed that identified any management issues with the proactive audit proposal or the vendor so that the finance committee would know what needed to be addressed. GM Peffley responded that could be done and that an internal order would log every request to determine the amount of staffing that would be required for the demand.

Motion by Commissioner Price, Seconded by Commissioner Mullen to Table the Internal Audit Charter Resolution, delaying the vote and allowing for further discussion at a future Finance Committee Meeting.

Motion Carried

Other

None.

Adjourn

Commissioner Ross adjourned the meeting at 8:35 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

General:

This Charter defines the internal audit function at the Lansing Board of Water and Light (LBWL) and the commitment to the professional practice of internal auditing by the Board of Commissioners (Board) and Senior Management. It grants Internal Audit the authority to carry out its mission as set forth by the Board, Finance Committee, Chair of the Board, and General Manager.

Organization:

Since Internal Audit's organizational status and the support accorded to it by Senior Management are major determinants of its range and value, the Director of Internal Audit is appointed annually by the Board and reports to them through the Chair of the Finance Committee, thereby establishing a special, independent reporting relationship. The Board shall review and approve the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.

Purpose and Mission:

Internal Audit is an independent, objective assurance, and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the LBWL in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control processes.

The mission of Internal Audit is to assist the Board, management, and employees in effectively discharging their responsibilities by providing them with independent, objective evaluations, analyses, appraisals, recommendations, and information concerning activities reviewed and by promoting effective internal controls. This enables the Board to better serve customers, employees, and the community.

Authority:

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, shall have full, free, and unrestricted access to any and all LBWL activities, subsidiaries, functions, processes, and resources consisting of all personnel, transactions, records (including physical, manual, and electronic), company-owned devices and electronic media, operations, systems, properties, and other sources of information and supporting



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

documentation required to carry out its mission¹. All processes, activities, and responsibility areas are subject to audit. All LBWL employees are requested and obligated to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free, unrestricted, and private access to the Board, Chair of the Board, Finance Committee, and General Manager.

Independence and Objectivity:

Internal Audit shall be a constructive, value-added service for (1) improving the effectiveness and efficiency of management processes, internal controls, and quality of performance by the LBWL in meeting its goals and objectives, (2) providing counsel and proactive advice concerning new systems, initiatives, and services under development, and (3) evaluating the systems and internal controls established to ensure compliance with established laws and regulations, corporate plans, principles, and prudent business practices. To ensure independence, Internal Audit shall have no direct responsibility or any authority over any of the activities or operations of the LBWL.

Internal Audit reports to the Board and will govern itself by adherence to The Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. The Director of Internal Audit will report periodically to Senior Management and the Board regarding Internal Audit's conformance to the Code of Ethics and the Standards. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to LBWL's relevant policies and procedures and Internal Audit's standard operating procedures manual. And, as supplemental guidance for the performance of audits, Internal Audit shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

Internal Audit will remain free from interference by any element in LBWL, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. In addition, Internal Audit will audit and evaluate the organization's processes and functions using a risk-based approach. Accordingly, Internal Audit will not implement internal controls, implement procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment. Internal Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and

¹ This also includes access to all LBWL information and records and full audit reports that pertain to audits conducted by the North American Electric Reliability Corporation for its Critical Infrastructure Protection Plan (NERC CIP).



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

communicating information about the activity or process being examined and will make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Director of Internal Audit, who also serves as the Chief Audit Executive, will confirm to the Board, in writing at least annually, the organizational independence of the internal audit activity.

Responsibility and Scope:

Management is responsible for establishing and maintaining risk management, internal controls, and governance processes for the organization. The scope of Internal Audit encompasses, but is not limited to, the evaluation of the adequacy and effectiveness of the organization's processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes the following:

Organization:

- Evaluating risk exposure relating to the achievement of strategic objectives and determining whether they are appropriately identified and managed.
- Evaluating information and the means used to identify, measure, analyze, classify, and report such information to determine if they are reliable and have integrity.
- Evaluating significant financial, managerial, and operating information to determine if it is accurate, reliable, and timely.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed and determining whether they are acquired economically, used efficiently, and adequately accounted for and protected.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.
- Determining if management, employee and independent contractor actions are compliant with policies, procedures, standards, laws, regulations, and contracts.

Internal Audit:

- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.
- Performing consulting and advisory services related to governance, risk management, and control as appropriate for the organization.
- Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to its plan.
- Meeting periodically with the Finance Committee to review Internal Audit's scope, staffing, training/development, budget, and audit schedule. In addition, the Director of Internal Audit will confirm to the Board and Finance Committee, in writing at least annually, the organizational independence Internal Audit.

Internal Audit Plan:

At least annually, the Director of Internal Audit will submit to the Board and General Manager an internal audit plan for review and Board approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. The Director of Internal Audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Board and the General Manager through periodic activity reports.

Reporting and Monitoring:

A written report will be prepared and issued by the Director of Internal Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response,



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal

Audit will be response for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director of Internal Audit will periodically report to the Board and Senior Management on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Senior Management and the Board.

Periodic Assessment For Quality Assurance and Improvement:

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

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

Internal Audit Charter Approval

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter as amended to which conforms to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Approved by the Board of Commissioners on Tuesday, September 24, 2019



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

General:

This Charter defines the internal audit function at the Lansing Board of Water and Light (LBWL) and the commitment to the professional practice of internal auditing by the Board of Commissioners (Board) and Senior Management. It grants Internal Audit the authority to carry out its mission as set forth by the Board, Finance Committee, and the Chair of the Board, ~~and General Manager.~~

This charter's content and requirements primarily originate from the professional standards of the Institute of Internal Auditors (IIA). In addition, the professional standards of the Information Systems Audit and Control Association (ISACA), Association of Certified Fraud Examiners (ACFE), and American Institute of Certified Public Accountants (AICPA), contributed to this charter's development. All of these standards define mandatory requirements that the internal audit function must meet in order to properly execute its mission and fulfill its purpose as defined in this charter and required by the Board.

Organization:

Since Internal Audit's organizational status and the support accorded to it by Senior Management are major determinants of its range and value, the Director of Internal Audit is appointed annually by the Board and reports to them through the Chair of the Finance Committee, thereby establishing a special, independent reporting relationship. The Board shall review and approve the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.

In order for the internal audit function to properly execute its mission and fulfill its purpose, the LBWL requires its internal audit staff to have experience and be certified in the related disciplines of internal auditing, accounting, fraud examination, or information systems auditing. Thus, in order to remain certified, the audit staff is expected and required by the Board to obtain and fully maintain its certifications through compliance and adherence to the professional standards of the organizations outlined above.

Purpose and Mission:

Internal Audit is an independent, objective assurance, and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the LBWL in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, fraud prevention and detection, and internal control processes.



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

The mission of Internal Audit is to assist the Board, management, and employees in effectively discharging their responsibilities by providing them with independent, objective evaluations, analyses, appraisals, recommendations, and information concerning activities reviewed and by promoting effective internal controls. This enables the Board to better serve customers, employees, and the community.

The mission does not limit Internal Audit to any one specific planned audit engagement or group of engagements. It defines that its mission be proactive, ongoing, and continuous, all of which are expected and required by the standards of the IIA, ISACA, ACFE, and AICPA in order for Internal Audit to execute its mission and fulfill its purpose on an ongoing basis.

Authority:

Internal Audit, with strict accountability for confidentiality, sensitivity, and safeguarding records and information, shall have full, free, unfettered, and unrestricted, unfiltered, continuous, and ongoing access to any and all LBWL activities, subsidiaries, functions, processes, and resources consisting of all personnel, transactions, books and records (including physical, manual, and electronic), company-owned devices and electronic media, operations, systems, properties, and other sources of information and supporting documentation required to carry out its mission¹. All processes, activities, and responsibility areas are subject to audit. All LBWL employees are ~~requested and~~ obligated and expected to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free, unfettered, unfiltered, unrestricted, and private access to the Board, Chair of the Board, Finance Committee, and General Manager.

Independence and Objectivity:

Internal Audit shall be a constructive, value-added service for (1) improving the effectiveness and efficiency of management processes, internal controls, and quality of performance by the LBWL in meeting its goals and objectives, (2) providing counsel and proactive advice concerning new systems, initiatives, and services under development, and (3) evaluating the systems and internal controls established to ensure compliance with established laws and regulations, corporate plans, principles, and prudent business practices. To ensure independence, Internal Audit shall have no direct responsibility or any authority over any of the activities or operations of the LBWL.

Internal Audit reports to the Board and will govern itself by adherence primarily to The Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, ~~and~~ the International Standards for the Professional Practice of Internal Auditing

¹ This also includes access to all LBWL information and records and full audit reports that pertain to audits conducted by the North American Electric Reliability Corporation for its Critical Infrastructure Protection Plan (NERC CIP) and other federal, state, and local regulatory agencies.



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

(IIA Standards), with the support of the standards of the ISACA, ACFE, and the AICPA that do not conflict with the IIA Standards. This mandatory guidance *and Internal Audit's compliance with the aforementioned standards* constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. The Director of Internal Audit will report periodically to *Senior Management* and the Board regarding Internal Audit's conformance *and adherence* to the IIA Code of Ethics, *IIA Standards, and the supporting, non-conflicting codes of ethics* and *the Standardsstandards of the other aforementioned organizations.* *The IIA's PracticeThe practice Advisoriesadvisories, Practice-practice Guidesguides, and Position Papers-papers, and other guidelines of the aforementioned organizations* will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to LBWL's relevant policies and procedures and Internal Audit's standard operating procedures manual. And, as supplemental guidance for the performance of audits, Internal Audit shall consider and, where appropriate, comply with Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office.

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The Director of Internal Audit, who also serves as the Chief Audit Executive, will confirm to the Board, in writing at least annually, the organizational independence of the internal audit *activityfunction.*

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Management is responsible for establishing and maintaining risk management, internal controls, and governance processes for the organization. The scope of Internal Audit encompasses, but is not limited to, the evaluation of the adequacy and effectiveness of the organization's processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes the following:



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

Organization:

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- Evaluating significant financial, managerial, and operating information to determine if it is accurate, reliable, and timely.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed and determining whether they are acquired economically, used efficiently, and adequately accounted for and protected.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.
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- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
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- Meeting periodically with the Finance Committee to review Internal Audit's scope, staffing, training/development, budget, and audit schedule. In addition, the Director of Internal Audit



Lansing, Michigan Board of Water and Light (LBWL) Internal Audit Department Charter

will confirm to the Board and Finance Committee, in writing at least annually, the organizational independence Internal Audit.

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At least annually, the Director of Internal Audit will submit ~~to the Board and General Manager~~ an internal audit plan to the Board for its review and Board approval. The internal audit plan will be developed using a risk-based methodology, including input of the General Manager and the Board. The Director of Internal Audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Board ~~and the General Manager~~ through periodic activity reports.

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A written report will be prepared and issued by the Director of Internal Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal Audit will be response for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director of Internal Audit will periodically report to the Board ~~and Senior Management~~ on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Senior Management and the Board.

Periodic Assessment For Quality Assurance and Improvement:

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing, ~~and the IIA Standards and the supporting, non-conflicting standards of the other aforementioned organizations,~~ and an evaluation of whether internal auditors apply the IIA Code of Ethics and the supporting, non-conflicting codes of ethics

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

Internal Audit Charter Approval

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter as amended to which conforms to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

DRAFT

Proposed Resolution
Internal Audit Charter Approval

RESOLVED, That the Board of Commissioners hereby approves the Internal Audit Charter as amended to which conforms to the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors.

Reporting and insights from 2020 audit:

Lansing Board of Water and
Light

September 2, 2020



Executive summary

We have completed our audit of the financial statements of Board of Water and Light – City of Lansing, Michigan and Pension Trust funds (collectively referred to as the BWL), for the year ended June 30, 2020, and have issued our report thereon dated September 2, 2020. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of the BWL's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

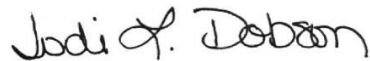
Additionally, we have included information on key risk areas the BWL should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

- Jodi Dobson, Partner, jodi.dobson@bakertilly.com or +1 (608) 240.2469

Sincerely,

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)



Jodi L. Dobson

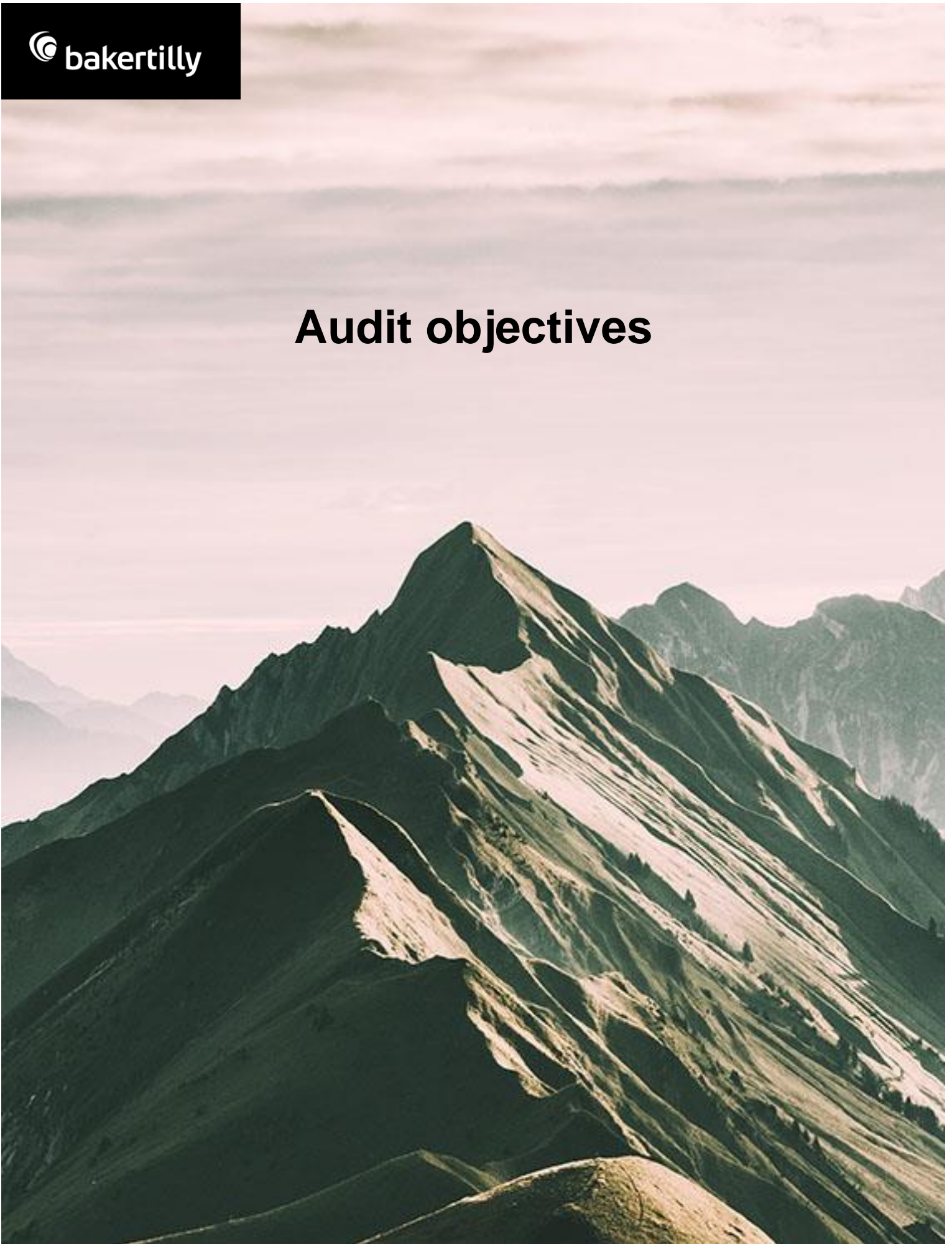
Partner

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THIS COMMUNICATION IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THOSE CHARGED WITH GOVERNANCE, AND, IF APPROPRIATE, MANAGEMENT, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

Audit objectives



Audit objectives

Our responsibilities




As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the BWL's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of the Board:
 - Are free from material misstatement
 - Present fairly, in all material respects, and in accordance with accounting principles generally accepted in the United States of America

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Board, including:

- Qualitative aspects of BWL's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant difficulties encountered
- Disagreements with management
- Corrected and uncorrected misstatements
- Internal control matters
- Significant estimates
- Other findings or issues arising from the audit

Management's responsibilities

Management	Auditor
 Prepare and fairly present the financial statements	Our audit does not relieve management or the Board of their responsibilities
 Establish and maintain effective internal control over financial reporting	An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls
 Provide us with written representations at the conclusion of the audit	See Appendix B for a copy of management's representations

Audit status



Audit status

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

Audit approach and results



Audit approach and results

Planned scope and timing

Audit focus

Based on our understanding of the BWL and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Implementation of new accounting standards

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the BWL's current year results.

Implementation of GASB No. 88 related to debt disclosures

During the current year, your government implemented GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements.

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audit, we focused on the following areas below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on non-financial data and substantive testing of related receivables	Procedures identified provided sufficient evidence for our audit opinion

Other key areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other key areas of emphasis			
Cash and investments	Revenues and receivables	General disbursements	Regulatory debits and credits
Payroll	Pension and OPEB liabilities	Long-term debt	
Capital assets including infrastructure	Net position calculations	Financial reporting and required disclosures	
Self-insurance and worker's compensation liabilities	Employee benefit plan testing	Environmental liabilities	

Internal control matters

We considered the BWL's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements. We are not expressing an opinion on the effectiveness of the BWL's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Required communications

Qualitative aspect of accounting practices

Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised 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 1, the BWL adopted Governmental Accounting Standards Board (GASB) No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective July 1, 2019. We noted no transactions entered into by the BWL during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.

- Accounting estimates: Accounting estimates, including fair value 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, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Net pension asset and related deferrals	Key assumptions set by management with the assistance of a third party actuary	Reasonable in relation to the financial statements as a whole
Self-insurance claims	Historical claims analysis and estimated lag report provided by a 3 rd party administrator	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts	Evaluation of historical revenues and loss levels with the analysis on collectability of individual amounts	Reasonable in relation to the financial statements as a whole
Net OPEB asset and related deferrals	Key assumptions set by management with the assistance of a third party actuary	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole
Unbilled revenues	Evaluation based on historical units of consumption by customers and billings	Reasonable in relation to the financial statements as a whole
Workers' Compensation liabilities	Historical claims analysis and estimated lag report provided by a 3 rd party administrator	Reasonable in relation to the financial statements as a whole
Environmental liabilities	Cash flow projections of estimated costs to remediate the sites.	Reasonable in relation to the financial statements as a whole
Coal inventory	Evaluation of volumetric survey performed by a third party	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the BWL or that otherwise appear to be unusual due to their timing, size or nature.

Difficulties encountered during the audit

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

Disagreements with management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Written communications between management and Baker Tilly

The Appendix includes copies of other material written communications, including a copy of management representation letter.

Uncorrected misstatements and corrected 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. There were no misstatements identified.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit.

Fraud

We did not identify any known or suspected fraud during our audit.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the BWL's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the BWL that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the BWL's related parties.

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the BWL's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

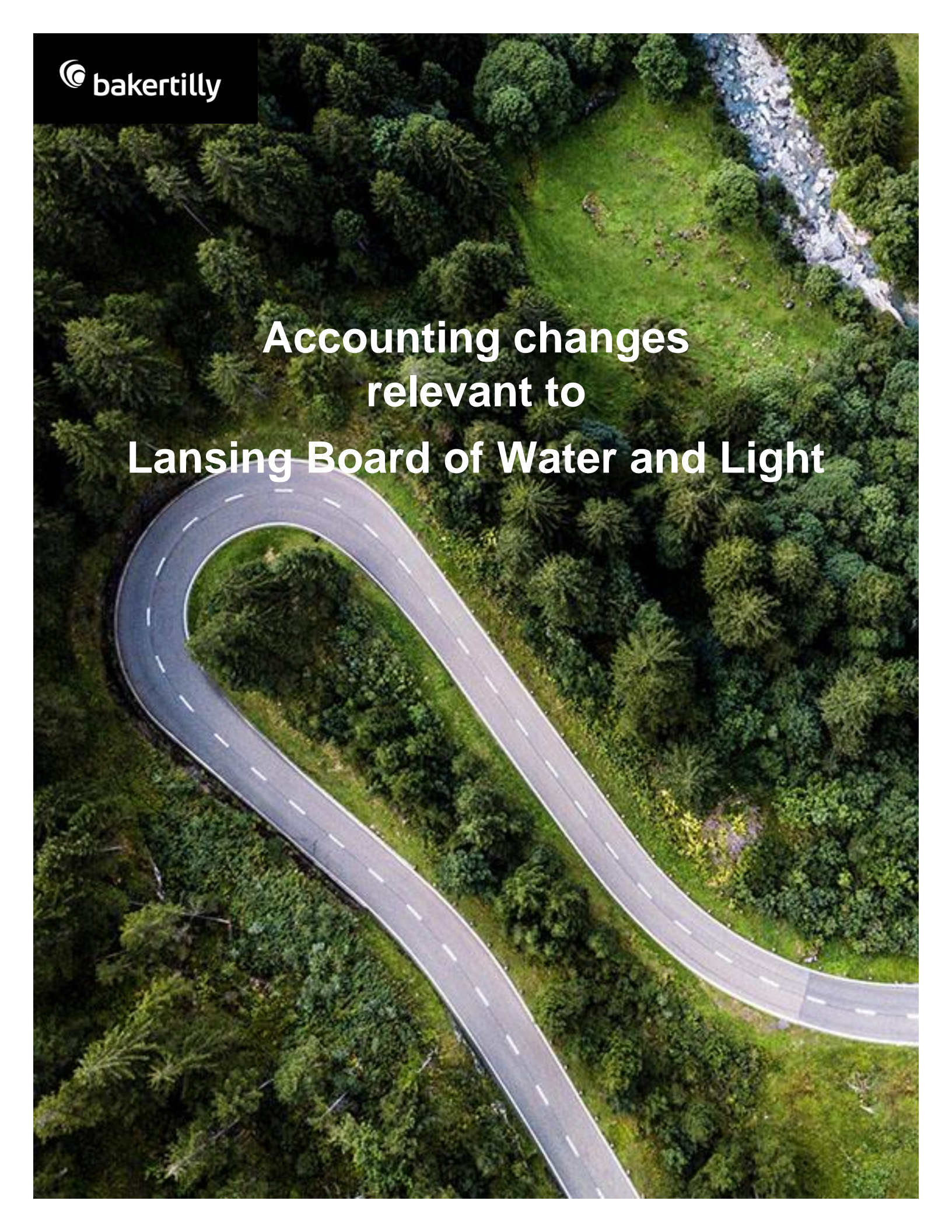
With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Technical assistance with the preparation and assembly of the financial statements and notes thereto

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

An aerial photograph of a winding asphalt road with white dashed lane markings, curving through a dense, lush green forest. A small stream is visible in the upper right corner of the image.

**Accounting changes
relevant to
Lansing Board of Water and Light**

Accounting changes relevant to BWL

Future accounting standards updates

GASB Statement Number	Description	Potentially Impacts you	Effective Date
84	Fiduciary Activities	✓	12/31/20*
87	Leases	✓	12/31/22*
90	Majority Equity Interests and amendment of GASB Statements No. 14 and No. 61		12/31/20*
91	Conduit Debt	✓	12/31/22*
92	Omnibus 2020	✓	12/31/22*
93	Replacement of Interfund Bank Offered Rates		12/31/22*
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements		12/31/23
96	Subscription-Based Information Technology Arrangements	✓	12/31/23
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	✓	12/31/23

**The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance, with the exception of Statement No. 87 which was postponed by one and a half years. The effective date reflected above is the required revised implementation date.*

Further information on upcoming [GASB pronouncements](#)

Preparing for the new lease standard

GASB's new single model for lease accounting will be effective for the upcoming year. This standard will require governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Contracts meeting the criteria for control, term and other items within the standard will result in recognizing a right to use asset and lease liability or a receivable and deferred inflow of resources.

We recommend BWL review this standard and start planning now as to how this will affect your financial reporting. We recommend that you begin by completing an inventory of all contracts that might meet the definition of a lease. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, BWL should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

Learn more about [GASB 87](#).

Planning for the new conduit debt reporting

Conduit debt includes arrangements where there are three separate parties involved including a third party that is obligated for payment, a debt holder or lender and an issuing party which is often a government. This standard provides additional criteria for identifying and classifying conduit debt with the intent of providing consistency in how the debt is recorded and reported in governmental financial statements. The BWL should identify any existing debt arrangements involving third party obligors and evaluate how those arrangements will be reported under the new standard in order to determine the potential impact of this standard on future financial reporting.

A photograph of the Aurora Borealis (Northern Lights) in shades of green and teal, dancing across a dark, starry night sky. The lights are reflected in a calm body of water in the foreground, with dark mountain ranges visible on the horizon.

Trending challenges for organizations

Trending challenges for organizations

Management and the governing body of the BWL must keep the future in mind as they evaluate strategies to achieve future growth. Keeping a balance between risk and sustainability is key, and organizations need to think beyond their immediate needs to their long term goals. Economic uncertainty, coupled with key risk areas and fast paced technology change, make strategic planning complex. Begin the discussion with your management team to find your path to your future.

2020 strategic risks for boards



Evaluating and mitigating the greatest risks

Public sector organizations face a multitude of internal and external risks in an evolving landscape. Risks can stem from strategy, finances, legal situations, operations, regulatory compliance, information technology, economic environment, and/or fraud, waste and abuse.

By employing a risk assessment, areas with the greatest needs and highest risks are evaluated. Then a risk mitigation plan can be developed and deployed.

Learn about [risk assessment](#) types, tools and strategies.

Cybersecurity

Operational reporting on cybersecurity effectiveness

As boards engage management in cybersecurity risk discussions, directors should expect management to produce reports on the effectiveness of the organization's cybersecurity-risk management program. Management can (and should) collect and analyze relevant performance measures and metrics to determine if cybersecurity safeguards and controls are operating as intended, and whether any corrective action should be taken to strengthen management's risk-mitigation approaches. While not an exhaustive list, some key processes on which management should report include these:

- Incident management
- Risk management and governance
- Independent assurance on the cybersecurity program

[Learn more](#) about cybersecurity risk management.



[WATCH: On demand webinar about board governance over cybersecurity.](#)

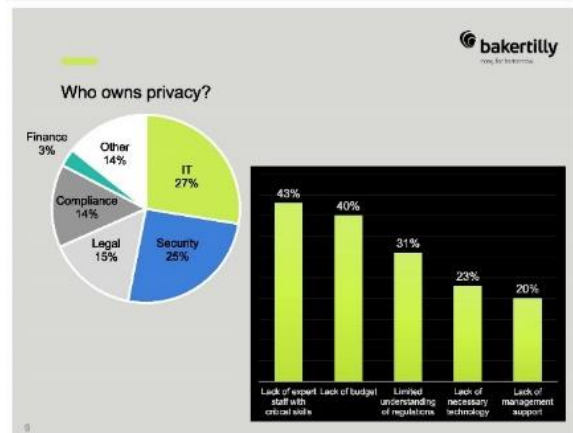
Data privacy

Elevating privacy risks to the forefront of board agendas

Organizations around the world are still scrambling to comply with the General Data Protection Regulation in the European Union, which went into effect in May 2018. While the data privacy regulatory environment changes rapidly, organizations can take proactive steps to ensure that they stay informed of the existing regulations and of those developing on the near horizon.

Adequate oversight remains a key part of staying on top of data privacy developments. Some regulations specify oversight requirements, and can depend on the type of the organization, the quantity and type of personal data processed, and the locations where operations take place. In many cases, a data protection officer (DPO) must lead the effort. Since the DPO is responsible for overseeing practices related to data protection strategy and implementation, having one in place early on will help ensure that the privacy program is comprehensive and consistent.

Learn more about [data privacy risk management](#).



[WATCH: On demand webinar about a risk-based approach to oversight, compliance and management of privacy](#)

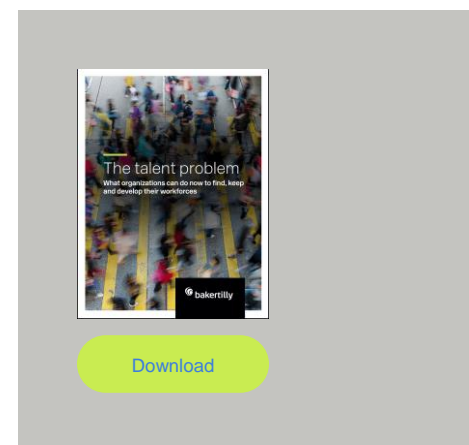
The talent problem

Establishing a lifeline for your shifting workforce

Employee recruitment and retention challenges are an all too common struggle in the public sector:

- Aging workers with institutional knowledge retire
- High demand for small qualified candidate pool
- Perception of geographic disadvantages
- Wage/benefit competition with private sector
- Lean operations exclude investments in recruitment, on-the-job training and technology
- Unclear growth and career advancement tracks

Sustainable organizations must have a robust workforce development and succession planning program. Learn how to get started and incorporate a workforce/succession planning program with existing operational practices.



Innovation

Anticipating disruptive innovation and digital transformation

To stay competitive and relevant in a rapidly changing business landscape, organizations in every industry must navigate an increasingly disruptive, technology-enabled environment. Companies that do not address and embrace new and emerging technologies will be less competitive or may even face obsolescence.

Given these challenges to companies, what does innovation mean in this era of digital transformation? Innovation now involves finding the right problems worth solving; building new offerings, business models, and experiences; and generating value at scale for customers.

Furthermore, the rapid digital transformation of advanced technologies such as blockchain, robotic process automation (RPA), and artificial intelligence (AI) now portend similar effects in industries from financial services and healthcare to communications and manufacturing. Boards must become

knowledgeable about these digital disruption trends in order to be able to conduct meaningful oversight that management can use successfully as the organization embraces new technologies.

Anticipating Disruptive Innovation and Digital Transformation

To stay competitive and relevant in a rapidly changing business landscape, organizations in every industry must navigate an increasingly disruptive, technology-enabled environment.

[Read the blog post.](#)

Learn more about [innovation opportunities](#).

Public sector executive recruitment

Navigating recruitments and smart hiring

Competing for top executive talent in the public sector space takes industry knowledge, familiarity with the general applicant pool and experience navigating recruitments. Search consultants draw upon their understanding of organizational management and human resources to serve as a successful agent for government entities. In turn, public sector organizations can adopt a foundational understanding about search firms to ensure optimal collaboration on hiring opportunities.

[Read the three part series](#) to learn what your entity should be thinking about and how Baker Tilly can help.

Three part series on public sector executive recruitment

Navigate the changing workforce landscape with confidence, read the executive recruitment series.

1. [Five myths about search firms](#)
2. [Recruiting for difficult positions](#)
3. [Hiring recommendations for government entities](#)

Customer experience

Finding your edge in a competitive market

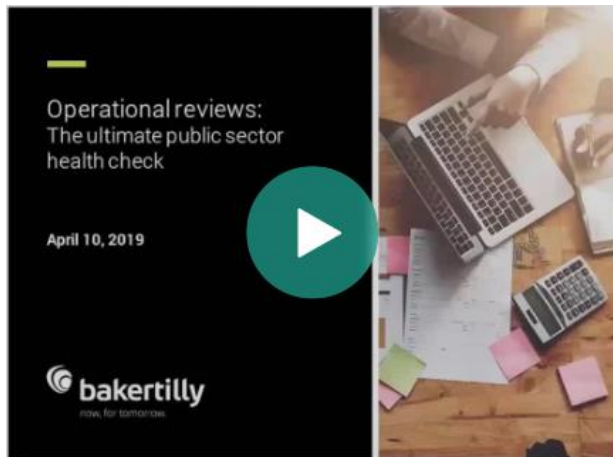
All industries are facing an increasingly competitive marketplace due to more connected consumers, partners and vendors. Where an organization may have had a geographic advantage in the past, they now need to be able to compete against non-local organizations.

One of the key factors in maintaining your place in the market is ensuring a positive, fast and easy customer experience. Whether this means enhancing your customer support services through online chat bots or developing a mobile app to allow your customer access to their information around the clock, your organization needs to take your customer experience strategy seriously. Management and board members should understand where your experience is currently and what strategies you are evaluating to enhance it.

Learn more about [why your customer experience is so important](#).

Operational and organizational sustainability

Aligning resources with strategy



As new demands confront the public sector industry, it's easy to solve an immediate problem instead of pausing to take a holistic view. Rippling inefficiencies, increasing financial pressures, taxing staff resources and plummeting constituent satisfaction can pile atop organizations already facing pressure to improve efficiency, effectiveness, relevance and financial viability.

An operational review follows a systematic, strategic approach to understanding an entity's operations and performance. Opportunities to improve processes, bolster internal controls and reduce costs are uncovered in order to realign organizational resources and strategic objectives.

Learn invaluable methods for [executing an operational review](#) while maintaining day-to-day operations.

COVID-19 Risks and ongoing response

Staying nimble and resilient during unprecedented disruption

COVID-19 has challenged all organizations and the effects continue to unfold. It is critical that management and governing bodies stay nimble to respond to direct and indirect effects of this disruption on operations, cash flow, and people. Some best practices to consider include:

- Establish mechanisms to track COVID-19 related expenses, lost revenues or delayed revenues
- Monitor cash flow projections and seek short term liquidity help
- Create a policy and forms for compliance with Family First Coronavirus Response Act
- Compare anticipated results to bond covenants and track any continuing disclosure items
- Re-evaluate TIF projections with revised development scenarios
- Develop a strategy for leading your community through the crisis



Learn about public sector [Coronavirus resources](#), including the latest news on business continuity and cash flow management, Federal stimulus and tax developments, and more.



Appendix A: Client service team

Client service team



Jodi L. Dobson, CPA

Partner

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United States

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Jeff Hurda, CPA

Senior Associate

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A photograph of two men in an office. The man on the left is seen from the back, wearing a white shirt and glasses. The man on the right is smiling and wearing a light blue shirt. They are shaking hands over a desk. On the desk, there is a laptop, a small potted plant, a white mug, and some papers. A window is visible in the background.

Appendix B: Management representation letter



September 02, 2020

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707 7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Lansing Board of Water and Light; including the Lansing Board of Water and Light Defined Benefit Plan, the Lansing Board of Water and Light Defined Contribution Plan, and the Lansing Board of Water and Light Retiree Benefit Plan (collectively the Lansing Board of Water and Light), as of June 30, 2020 and 2019 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the business type activities, and the fiduciary funds of the Lansing Board of Water and Light and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.



6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Commissioners and the Pension Fund Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. Plan instruments, trust agreements, insurance contracts, or investment contracts and amendments to such documents entered into during the year, including amendments to comply with applicable laws.
12. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.



14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have a process to track the status of audit findings and recommendations.
19. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
20. The entity has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
22. There are no:
 - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
 - e. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or leases in default, or events that may jeopardize the tax status) that legal counsel has advised us must be disclosed.



23. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

a. Financial statement preparation assistance

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

24. The Lansing Board of Water and Light has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

25. The Lansing Board of Water and Light has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

26. The financial statements properly classify all funds and activities. All cash and bank accounts and all other properties and assets of the entity of which we are aware are included in the financial statements. All borrowings and financial obligations of the entity of which we are aware are included in the financial statements as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

27. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

28. The Lansing Board of Water and Light has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

29. Provisions for uncollectible receivables, if any, have been properly identified and recorded. Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet dates and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

30. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.

31. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

32. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

33. We believe that the estimate made for the pollution remediation liability is in accordance with GASB 49 and reflects all known available facts at the time it was recorded.

34. Tax exempt bonds issued have retained their tax exempt status.



35. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.
36. We have appropriately disclosed the Lansing Board of Water and Light's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
37. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
38. With respect to the supplementary information, (SI):
 - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
39. We assume responsibility for, and agree with, the findings of specialists in evaluating the self-insurance reserves, net OPEB liability and related deferrals, and net pension asset and related deferrals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
40. We have implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* and believe that all required disclosures and accounting considerations have been identified and properly classified in the financial statements in compliance with the Standard.

The following representations relate specifically to the employee benefit plans:

41. We have properly recorded or disclosed in the financial statements any amendments to the plan instruments, if any.
42. The defined benefit plan obtained its latest determination letter on November 4, 2011, in which the Internal Revenue Service stated that the plan, as then designed, was in compliance with the appropriate requirements of the Internal Revenue Code (IRC). We believe the plan is currently designed and being operated in compliance with the applicable requirements of the IRC.



43. The defined contribution plan obtained an opinion letter on March 31, 2014, in which the Internal Revenue Service stated that the plan, as then designed, was acceptable as to form under Section 401 of the IRC and employers adopting the plan may rely on the opinion letter with respect to qualification of its plan under Code section 401(a). We believe the plan is currently designed and being operated in compliance with the applicable requirements of the IRC.
44. The retiree benefit plan received a letter from the Internal Revenue Service dated February 8, 2000 confirming its status as exempt from tax under the IRC. We believe the exemption letter remains valid.
45. We have no intentions to terminate any of the plans.
46. Related to the defined benefit plan:
 - a. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.
 - b. The plan administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the plan's net pension asset and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.
47. Related to the retiree medical plan:
 - a. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the annual employer contribution and other actuarially determined amounts in the financial statements.
 - b. The plan administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the plan's actuarial accrued liability and total OPEB liability (under GASB Statement No. 74) and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.
48. The following have been properly recorded or disclosed in the financial statements:
 - a. The actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.
 - b. No other changes occurred in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.
49. The plans (and the trusts established under the plans) are qualified under the appropriate section of the Internal Revenue Code and intend to continue as qualified plans (and trusts). The plan sponsor has operated the plans and trusts in a manner that did not jeopardize this tax status.





50. All required filings with the appropriate agencies have been made.

Sincerely,

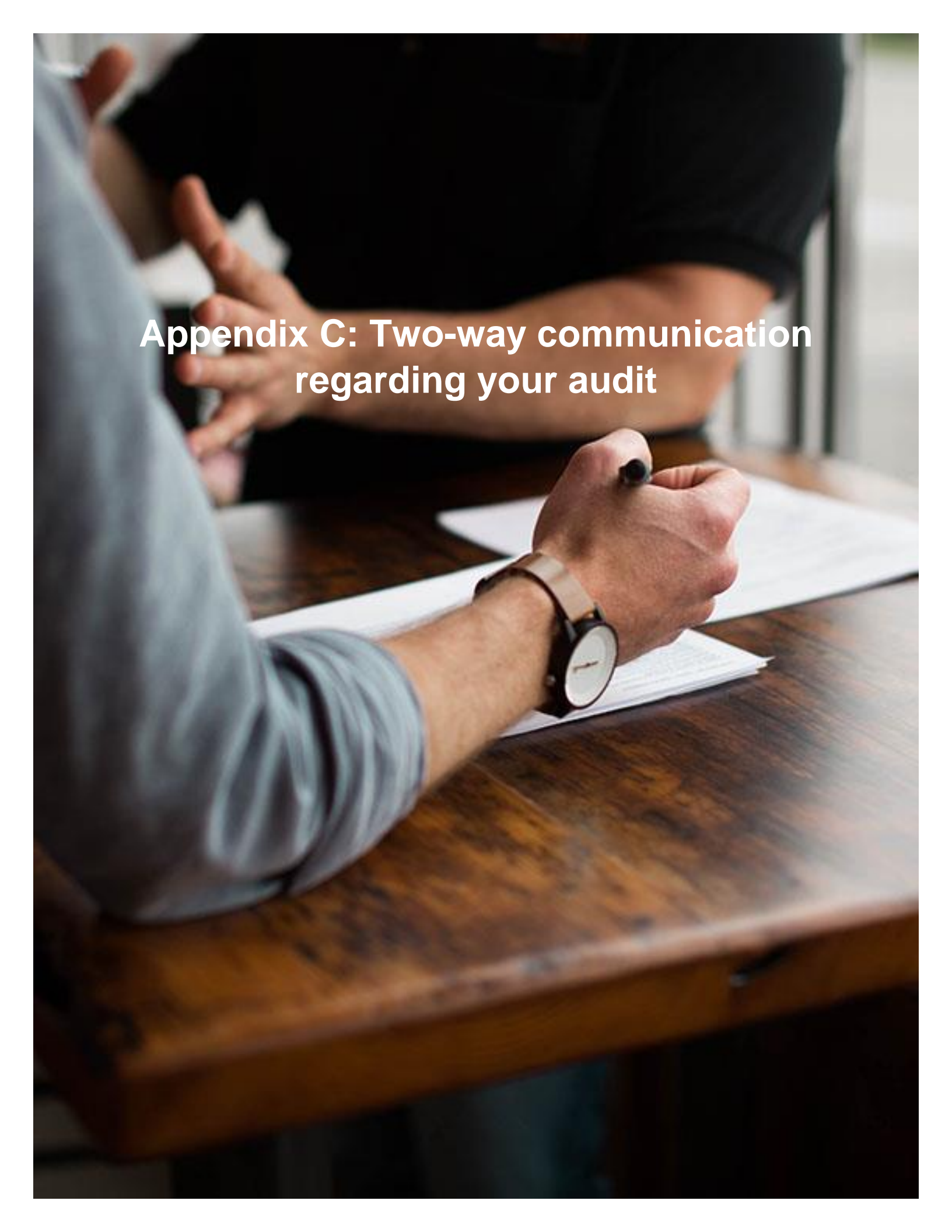
Lansing Board of Water and Light

Signed: *Josh Irving* Aug 31, 2020
Josh Irving, Supervisor, Reports and Property Accounting

Signed: *Scott Taylor* Aug 31, 2020
Scott, Taylor, Manager, Accounting and Finance

Signed: *Heather Shawa* Aug 31, 2020
Heather Shawa, Chief Financial Officer



A close-up photograph of a person's hands and arms at a wooden table. The person is wearing a light blue long-sleeved shirt and a black watch with a white face. They are holding a black pen and writing on a white document. In the background, another person's hands are visible, gesturing during a conversation. The scene is set in a meeting or office environment.

**Appendix C: Two-way communication
regarding your audit**

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - Identify types of potential misstatements.
 - Consider factors that affect the risks of material misstatement.
 - Design tests of controls, when applicable, and substantive procedures.
- c. We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.
- d. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the governing board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. We anticipate that the BWL will receive an unmodified opinion on its financial statements.
- e. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- f. Have you had any significant communications with regulators or grantor agencies?
- g. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the governing body concerning:

- a. The entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of April and May. Our final financial fieldwork is scheduled during the summer to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.



Board of Water and Light – City of Lansing, Michigan

Financial Report
with Additional Information
As of and for the Years Ended June 30, 2020 and
2019

Board of Water and Light – City of Lansing, Michigan

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lansing Board of Water and Light enterprise fund and its fiduciary funds, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Lansing 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 Lansing Board of Water and Light'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 Lansing Board of Water and Light's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund and fiduciary funds of the Lansing Board of Water and Light as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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.

Additional Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information, listed in the table of contents as additional information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
September 2, 2020

Lansing Board of Water and Light

Management's Discussion and Analysis

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light ("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 the years ended June 30, 2020 and 2019.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric energy to over 99,000 retail customers in the greater Lansing area, and wholesale customers through participation in the Midcontinent Independent System Operator, Inc. (MISO), which is BWL's regional electric grid. The BWL generated 61 percent of its retail and wholesale sales from existing generation assets. Additional electric generation was supplied through BWL's membership in the Michigan Public Power Agency, which includes BWL's partial ownership of Detroit Edison's Belle River Plant, and through MISO. The BWL maintains a diversified renewable energy portfolio which includes wind, solar, landfill gas, and hydro-electric generation. The combination of renewable energy generation and energy efficiency programs support BWL's plan to provide 50% clean energy by 2030 and carbon neutrality by 2040.

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 57,000 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 151 customers, and a chilled water facility and distribution piping system serving 19 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a high 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 its water, electric, steam, and chilled water systems. Gross capital expenditures were \$204.6 and \$131.4 million in fiscal years 2020 and 2019, respectively.

The BWL generally pays the cost of its capital improvements from internally generated funds; however, revenue bonds are issued from time to time to support large projects or special needs such as construction of generation facilities.

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

Detailed financial information for the separate utilities of water, electric, steam, and chilled water can be found in the Additional Information section of this financial report.

Condensed Financial Information (dollars in millions)

	As of June 30			% Change
	2020	2019	2018	2019 to 2020
Assets				
Utility plant	\$ 945.5	\$ 798.7	\$ 719.3	% 18.4
Other assets	538.4	661.8	296.8	(18.6)
Total assets	1483.9	1,460.5	1,016.1	1.6
Deferred Outflow of Resources	27.7	5.2	7.4	432.7
Liabilities				
Long-term liabilities	710.1	712.6	355.6	(0.4)
Other liabilities	97.4	63.3	61.3	53.9
Total liabilities	807.5	775.9	416.9	4.1
Deferred Inflow of Resources	71.5	86.9	36.2	(17.7)
Net Position				
Net investment in capital assets	395.0	381.0	418.1	3.7
Restricted for debt service	56.6	72.1	42.8	(21.5)
Unrestricted	181.0	149.8	109.6	20.8
Net position	\$ 632.6	\$ 602.9	\$ 570.5	% 4.9

Capital expenditures in FY2020 exceeded depreciation, impairments and retirements thereby increasing utility plant by \$146.8 million. The increase in utility plant is primarily due to construction progress on the Delta Energy Park facilities. Deferred outflows grew by \$22.5 million because of bond refunding loss amortization, and differences between projected and actual earnings on future retirement expense. The increase in Other liabilities of \$34.1 million is primarily due to an increase in current accounts payables associated with construction of the Delta Energy Park facilities.

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions) (Continued)

	For the Year Ended June 30			% Change 2019 to 2020
	2020	2019	2018	
Result of Operations				
Operating Revenue	\$ 364.6	\$ 356.9	\$ 353.1	% 2.2
Operating Expense	318.5	312.1	325.5	2.1
Nonoperating expense - Net	<u>(16.4)</u>	<u>(12.4)</u>	<u>(13.4)</u>	<u>32.3</u>
Changes in Net Position	\$ 29.7	\$ 32.4	\$ 14.1	% (8.30)

Operating revenue increased by \$7.7 million primarily due to changes in rates. Net Income decreased by \$2.7 million primarily due to increased operating and nonoperating expenses which included an increase of bonded debt interest expense of \$10.8 million.

Budget – The BWL Commissioners approved a \$283.3 million operating expense budget (excluding depreciation) for fiscal year 2020. Actual expenses (excluding depreciation) were \$244.8 million. The capital improvement budget, net of customer contributions in aid of construction, was \$265.9 million for FY2020, and actual net capital expenditures were \$200.5 million. The difference between the capital budget and actual spend is due to a change within the project timeline due to the COVID-19 pandemic for the new combined cycle natural gas power plant, Delta Energy Park.

Financing Activities - In June of 2019, \$319,875,000 of Utility System Revenue Refunding Bonds, Series 2019A were issued for the purposes of: paying costs to acquire and construct a combined cycle natural gas power plant (Delta Energy Park) and other system improvements, paying a portion of the BWL's outstanding 2018 Note Series, and paying costs of issuance of the Series 2019 Bonds. The cost of Delta Energy Park is budgeted at up to \$500 million and is scheduled to begin operation in FY 2022.

In December of 2019, \$251,995,000 of Utility System Revenue Refunding Taxable Bonds, Series 2019B were issued for the purposes of advanced refunding most of the Series 2011A Bonds. The advance refunding has reduced the cash flow requirements for repayment of the bonds from 2020 through 2041.

COVID-19 Global Pandemic – In response to national, state and local mandates, in mid-March the BWL ordered its non-essential employees to work remotely and reduced critical workforce onsite. BWL began phased return to work of all critical staff in June.

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

BWL continues to support its customers during the COVID-19 pandemic. BWL provided its electric customers with a temporary moratorium on shutoffs through July and temporary suspension of delayed payment charges. BWL is working proactively with electric customers to create payment arrangements for those who need them.

BWL has suspended water shutoffs for non-pay through December 31, 2020 as directed by a State of Michigan Executive Order.

The effects of the pandemic and economic contraction will likely result in an increase in the number of accounts treated as bad debt. As a result, BWL increased its uncollectable reserve for account write-offs from \$1.5 million annually to \$2.5 million annually.

Potential impacts to BWL associated with COVID-19 include, increased costs related to keeping customers and employees safe, supply chain disruptions, and disruptions to the regional and local economy with corresponding decreases in utility revenue.

Board of Water and Light - City of Lansing, Michigan

Statements of Net Position

	As of June 30	
	2020	2019
Assets		
Current Assets		
Restricted cash and investments (Notes 2 and 3)	\$ 69,960,767	\$ 79,607,052
Cash and investments (Notes 1 and 2)	60,857,820	37,546,971
Designated cash and investments (Notes 1 and 2)	94,765,550	91,631,559
Accounts receivable - Net (Note 1)	24,968,123	24,087,240
Estimated unbilled accounts receivable (Note 1)	19,993,423	18,131,906
Inventories (Note 1)	24,658,695	29,966,809
Other	4,698,464	5,278,743
Total current assets	299,902,842	286,250,280
Other Assets		
Recoverable environmental remediation (Note 6)	1,158,112	2,435,729
Special deposit (Note 1)	46,321,165	34,361,165
Net pension asset (Note 8)	3,388,473	6,595,727
Net OPEB asset (Note 8)	44,202,116	46,608,898
Other (Note 1)	2,595,524	2,590,845
Total other assets	97,665,390	92,592,364
Noncurrent Restricted Assets (Investments) (Notes 2 and 3)	140,848,613	282,919,314
Utility Plant (Notes 1 and 4)		
Water	336,328,287	328,004,577
Electric	808,880,819	795,361,687
Steam	82,102,414	80,233,333
Chilled water	34,085,016	34,083,868
Common facilities	106,256,804	103,276,137
Total	1,367,653,340	1,340,959,602
Less accumulated depreciation	648,979,613	611,749,762
Net	718,673,727	729,209,840
Construction in progress (Note 9)	226,845,122	69,536,946
Total utility plant	945,518,849	798,746,786
Total assets	1,483,935,694	1,460,508,744
Deferred Outflows of Resources -		
Bond refunding loss being amortized (Note 1)	8,770,739	1,699,549
Net pension deferred outflows (Note 8)	1,642,478	337,272
Net OPEB deferred outflows (Note 8)	17,275,643	3,180,635
Total deferred outflows of resources	27,688,860	5,217,456

Board of Water and Light - City of Lansing, Michigan

Statements of Net Position (Continued)

	As of June 30	
	2020	2019
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 64,194,086	\$ 38,323,009
Current portion of long-term debt (Note 5)	7,942,341	7,608,792
Accrued payroll and related taxes	3,098,859	2,415,744
Customer deposits	2,827,209	2,474,310
Accrued compensated absences (Note 1)	5,908,604	4,843,676
Accrued interest	79,471	84,772
Accrued interest (payable from restricted assets)	<u>13,350,348</u>	<u>7,531,375</u>
Total current liabilities	97,400,918	63,281,678
Compensated Absences - Less current portion (Note 1)	7,651,447	7,497,367
Other Long-term Liabilities		
Workers' compensation	2,200,000	2,200,000
Environmental remediation liability (Note 9)	6,388,002	6,902,174
Other	<u>1,631,239</u>	<u>1,305,804</u>
Total other long-term liabilities	10,219,241	10,407,978
Long-term Debt - Less current portion (Note 5)	<u>692,227,682</u>	<u>694,699,953</u>
Total liabilities	807,499,288	775,886,976
Deferred Inflows of Resources		
Revenue intended to cover future costs (Note 6)	11,915,884	15,377,770
Recoverable energy asset (Note 6)	3,322,683	8,087,614
Net OPEB deferred inflows (Note 8)	<u>56,304,152</u>	<u>63,472,837</u>
Total deferred inflows of resources	71,542,719	86,938,221
Net Position		
Net investment in capital assets	394,968,178	381,056,904
Restricted for debt service (Note 3)	56,610,419	72,075,677
Unrestricted	<u>181,003,950</u>	<u>149,768,422</u>
Total net position	<u>\$ 632,582,547</u>	<u>\$ 602,901,003</u>

Board of Water and Light - City of Lansing, Michigan

Statements of Revenues, Expenses, and Changes in Net Position

	For the Year Ended June 30	
	2020	2019
Operating Revenues (Note 1)		
Water	\$ 45,923,606	\$ 42,851,399
Electric	299,951,673	294,100,606
Steam	12,526,501	13,740,119
Chilled water	6,211,174	6,192,397
Total operating revenues	364,612,954	356,884,521
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	125,348,562	125,335,173
Maintenance	17,574,743	18,941,418
Transmission and distribution:		
Operating expenses	8,763,274	8,186,690
Maintenance	20,308,757	21,688,566
Administrative and general	72,827,369	70,664,307
Return on equity (Note 7)	23,100,000	21,110,884
Depreciation (Note 1)	50,618,741	46,123,865
Total operating expenses	318,541,446	312,050,903
Operating Income	46,071,508	44,833,618
Nonoperating Income (Expenses)		
Investment income	11,006,985	5,464,438
Other expense	(1,096,805)	(2,373,022)
Bonded debt interest expense	(26,208,473)	(15,443,098)
Other interest expense	(91,671)	(78,810)
Total nonoperating expenses - Net	(16,389,964)	(12,430,492)
Net Income (Changes in Net Position)	29,681,544	32,403,126
Net Position - Beginning of year	602,901,003	570,497,877
Net Position - End of year	\$ 632,582,547	\$ 602,901,003

Board of Water and Light - City of Lansing, Michigan

Statements of Cash Flows

	For the Year Ended June 30	
	2020	2019
Cash Flows from Operating Activities		
Cash received from customers	352,546,933	359,151,859
Cash paid to suppliers	(205,199,739)	(240,801,534)
Cash paid to employees	(59,635,713)	(54,272,072)
Return on equity (Note 7)	(23,100,000)	(21,110,884)
Cash from customer deposits	352,899	271,531
Interest on customer deposits	(91,671)	(78,810)
Net cash provided by operating activities	64,872,709	43,160,090
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	13,425,000	450,883,509
Planned, bonded, and annual construction	(171,547,126)	(126,190,596)
Principal payments on debt	(15,012,580)	(74,960,459)
Bond issuance costs	-	(1,915,598)
Interest on debt	(28,017,133)	(16,341,797)
Net cash used in capital and related financing activities	(201,151,839)	231,475,059
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	275,710,208	150,921,330
Interest received	2,241,284	831,335
Purchase of investments	(70,931,911)	(297,210,832)
Net cash provided by investing activities	207,019,581	(145,458,167)
Net Increase in Cash and Cash Equivalents	70,740,451	129,176,982
Cash and Cash Equivalents - Beginning of year	209,377,897	80,200,915
Cash and Cash Equivalents - End of year	\$ 280,118,348	\$ 209,377,897

Board of Water and Light - City of Lansing, Michigan

Statements of Cash Flows (Continued)

	For the Year Ended June 30	
	2020	2019
Balance Sheet Classifications		
Restricted cash and investments	\$ 69,960,767	\$ 79,607,052
Cash and investments	60,857,820	37,546,971
Designated cash and investments	94,765,550	91,631,559
Noncurrent restricted assets	<u>140,848,613</u>	<u>282,919,314</u>
Total cash and investments	\$ 366,432,750	\$ 491,704,896
Less noncash investments	<u>(86,314,402)</u>	<u>(282,326,999)</u>
Cash and Cash Equivalents - End of year	<u>\$ 280,118,348</u>	<u>\$ 209,377,897</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
	For the Year Ended June 30	
	2020	2019
Operating income	\$ 46,071,508	\$ 44,833,618
Adjustments to reconcile operating income to net cash from operating activities:		
Other nonoperating	(2,061,724)	(1,477,359)
Depreciation	50,618,741	46,123,865
Sewerage collection fees	964,920	1,019,935
Interest on customer deposits	(91,671)	(78,810)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	(880,883)	473,046
Unbilled accounts receivable (Note 1)	(1,861,517)	1,616,388
Inventories	5,308,114	(6,045,081)
Other postemployment benefits asset and deferrals	(18,856,911)	(15,503,751)
Special deposit	(11,960,000)	(34,320,000)
Net pension asset	3,207,254	20,755
Other	1,853,217	14,285
(Decrease) increase in liabilities and deferred outflows/inflows of resources:		
Accounts payable and other accrued expenses	(64,956)	3,809,162
Customer deposits	352,899	271,531
Net pension asset deferrals	(1,305,206)	1,595,057
Other	<u>(6,421,076)</u>	<u>807,449</u>
Total adjustments	<u>18,801,201</u>	<u>(1,673,528)</u>
Net cash provided by operating activities	<u>\$ 64,872,709</u>	<u>\$ 43,160,090</u>
Noncash Capital and Financing Activities		
Increase in noncash investment valuations	\$ 8,765,700	\$ 4,633,103
Bond proceeds used in the refunding of prior debt issuance	\$ 238,570,000	\$ -
Loss on refunding of bonds	\$ (7,403,786)	\$ -

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statements of Net Position

	As of June 30	
	2020	2019
Assets		
Receivable - investment interest receivable	\$ 28,851	\$ 346,702
Trade receivable - due from broker	13,252	1,539
Investments at fair value:		
Cash and money market trust fund	1,980,661	5,400,601
U.S. government obligations	-	23,867,491
Fixed income securities	285	26,488,080
Mutual funds	248,475,224	253,772,223
Stable value	36,833,694	36,352,914
Guaranteed income fund	8,975,990	8,940,026
Common collective funds	56,792,990	15,855,280
Common stock	95,715,429	77,698,376
Self-directed brokerage account	6,330,405	3,787,956
Participant notes receivable	3,251,182	3,422,076
Total investments	<u>458,355,860</u>	<u>455,585,023</u>
Liabilities		
Trade payable - due to broker	<u>1,057</u>	<u>81,828</u>
Net Position - Held in trust for pension and other employee benefits	<u>\$ 458,396,906</u>	<u>\$ 455,851,436</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statements of Changes in Net Position

	For the Year Ended June 30	
	2020	2019
Increases		
Investment income:		
Net appreciation in fair value of investments	\$ 5,145,608	\$ 10,999,681
Interest and dividend income	<u>9,362,805</u>	<u>16,112,845</u>
Net investment income	14,508,413	27,112,526
Employer contributions	15,889,585	15,895,922
Participant rollover contributions	466,139	1,786,985
Interest from participant notes receivable	<u>172,695</u>	<u>210,373</u>
Total increases	31,036,832	45,005,806
Decreases		
Retiree benefits paid	27,416,448	29,059,604
Loan defaults	232,785	247,237
Participants' note and administrative fees	<u>842,129</u>	<u>921,703</u>
Total decreases	<u>28,491,362</u>	<u>30,228,544</u>
Change in Net Position Held in Trust	2,545,470	14,777,262
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	<u>455,851,436</u>	<u>441,074,174</u>
End of year	<u>\$ 458,396,906</u>	<u>\$ 455,851,436</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies

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

Reporting Entity – The BWL, a related organization of the City of Lansing, Michigan ("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 it has spent certain resources, separate funds allow the BWL to show the particular expenditures that specific revenues were used for. The funds are aggregated into two fund types:

Enterprise funds provide goods or services to users in exchange for charges or fees.

Fiduciary funds

1. The Defined Contribution Plan and Defined Benefit Plan, which accumulate resources for benefit payments to retirees.
2. The Voluntary Employees' Beneficiary Association ("VEBA"), which accumulates resources for future retiree health care payments to retirees.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

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

In March 2018, the GASB issued Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented effective July 1, 2019 for the enterprise fund.

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 position as operating and nonoperating.

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

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, return on equity, 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.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between two willing parties. Fair values are based on methods and inputs as discussed in Note 2. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – 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	
	2020	2019
Designated purpose:		
Coal inventory fluctuation	\$ 5,162,129	\$ 4,885,785
Litigation, environmental, and uninsured losses	20,876,355	19,754,722
Future water facilities	<u>4,209,979</u>	<u>3,982,401</u>
Subtotal	30,248,463	28,622,908
Special purpose – Future construction	<u>64,517,087</u>	<u>63,008,651</u>
Total	<u>\$ 94,765,550</u>	<u>\$ 91,631,559</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 2020 and 2019 are as follows:

	2020	2019
Customer receivables	\$ 22,856,130	\$ 20,283,557
Sewerage collections	2,557,134	2,472,766
Miscellaneous	2,054,859	2,830,917
Less allowance for doubtful accounts	<u>(2,500,000)</u>	<u>(1,500,000)</u>
Net	<u>\$ 24,968,123</u>	<u>\$ 24,087,240</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

Special Deposit – In 2018, the BWL contracted with Consumer’s Energy to install a new gas pipeline. Under the terms of the contract, the BWL will make installment payments totaling \$52,000,000 throughout the construction period. Based on usage of the new pipeline, the BWL is eligible to recover all but \$10,000 of the installment payments. As of June 30, 2020, the BWL estimates it will recover at least \$46,280,000 of the installment payments based on expected usage. The long-term other asset for the Consumer’s Energy deposit recorded was \$46,280,000 and \$34,320,000 in 2020 and 2019, respectively. The BWL has \$41,165 of miscellaneous other deposits as of June 30, 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
Coal	\$ 10,689,363	\$ 15,002,110
Gas	327,236	663,786
Materials and supplies	<u>13,642,096</u>	<u>14,300,913</u>
Total	<u>\$ 24,658,695</u>	<u>\$ 29,966,809</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. Capital assets are generally defined as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of one year.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

Depreciation – Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives. The resulting provisions for depreciation in 2020 and 2019, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant	Life (Years)	Average Rate (Percent)	
		2020	2019
Water	4-100	2.2	2.1
Electric	4-50	4.1	4.2
Steam	5-50	3.3	3.2
Chilled water	5-50	3.5	3.5
Common facilities	4-50	7.1	5.3

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

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 \$13,560,051 and \$12,341,043 as of June 30, 2020 and 2019, respectively.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The BWL has three items that qualify for reporting in this category. The deferred outflows of resources relate to deferred losses on refunding, pension related deferrals under GASB 68, and OPEB related deferrals under GASB 75.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The BWL has the following items that qualify for reporting in this category: the deferred inflows of resources related to costs that have been recovered from customers and will be applied to customers in the future related to the renewable energy plan and energy optimization, chiller plant, and Wise Road items described in Note 6, pension related deferrals under GASB 68, and OPEB related deferrals under GASB 75.

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

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

Net Pension Asset – A net pension asset is recorded in accordance with GASB Statement No. 68. The asset is the difference between the actuarial total pension liability and the Plan’s fiduciary net position as of the measurement date. See Note 8 for additional information.

Other Assets – Other assets consists of a deposit held with the Michigan Public Power Agency (MPPA) related to the Belle River project.

Long-Term Obligations – Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the balance sheet.

Unbilled Accounts Receivable and Revenue – Unbilled accounts receivable at June 30, 2020 and 2019 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 July 1 will be recognized in the current period.

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net OPEB asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light (“Plan”), a trust fund of the BWL, and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Significant Accounting Policies (Continued)

Inter-utility 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 \$9,712,203 and \$9,350,898 in 2020 and 2019, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net position.

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.

Reclassifications – Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Note 2 – 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 Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – 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 & 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.

Michigan Cooperative Liquid Assets Securities System (MI CLASS) reports the fair value of its underlying assets annually. Participants in the MI CLASS have the right to withdraw their funds in total on one day's notice. At June 30, 2020 and 2019, the fair value of the MI CLASS' assets were substantially equal to the utility's share. MI CLASS is rated AAAM by Standard and Poor's. The BWL also has cash and investments with Governments of Michigan Investing Cooperatively (GovMIC). The GovMIC cash and investments are recorded at amortized cost which approximates fair value.

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

BWL's Cash and Investments (exclusive of fiduciary funds)

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, 2020 and 2019, the BWL had \$27,134,118 and \$15,777,227, respectively, 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

At June 30, 2020, 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	\$136,319,717	Counterparty
State and local bonds	2,887,393	Counterparty

At June 30, 2019, 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	\$360,476,059	Counterparty

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The BWL's investment policy restricts investments to a maximum weighted average life of five years unless matched to a specific cash flow.

At June 30, 2020, the average maturities of investments are as follows:

Investment	Fair Value	Less than		
		1 year	1–5 years	6+ years
Pooled investment funds	\$ 26,717,968	\$ 26,717,968	\$ –	\$ –
U.S. treasury bonds	89,467,364	65,498,632	23,968,732	–
State and local bonds	2,887,393	–	2,887,393	–
U.S. agency bonds/notes	41,231,236	2,455,728	26,734,560	12,040,948
Supra national agency bonds	5,621,116	3,710,439	1,910,677	–
Mutual funds	136,024,571	136,024,571	–	–
Total	\$ 301,949,648	\$ 234,407,338	\$ 55,501,362	\$ 12,040,948

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

At June 30, 2019, the average maturities of investments are as follows:

Investment	Fair Value	Less than		
		1 year	1-5 years	6+ years
Pooled investment funds	\$ 19,221,298	\$ 19,221,298	\$ -	\$ -
U.S. treasury bonds	324,831,542	223,453,298	101,378,244	-
U.S. agency bonds/notes	29,217,335	7,323,628	15,385,570	6,508,137
Supra national agency bonds	6,427,183	758,658	5,668,525	-
Mutual funds	<u>82,303,978</u>	<u>82,303,978</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 462,001,336</u>	<u>\$ 333,060,860</u>	<u>\$ 122,432,339</u>	<u>\$ 6,508,137</u>

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

As of June 30, 2020, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating
			Organization
Pooled investment funds	\$26,717,967	AAAm	S&P
U.S. treasury bonds	89,467,365	AA+ (Aaa)	S&P (Moody's)
U.S. agency bonds/notes	41,231,236	AA+ (Aaa)	S&P (Moody's)
Supra national agency bonds	5,621,116	AAA (Aaa)	S&P (Moody's)
State and local bonds	2,887,393	AAA (Aaa)	S&P (Moody's)
Mutual funds	136,024,571	AAAm	S&P

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

As of June 30, 2019, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 19,221,298	AAAm	S&P
U.S. treasury bonds	324,831,542	AA+ (Aaa)	S&P (Moody's)
U.S. agency bonds/notes	29,217,335	AA+	S&P
Supra national agency bonds	6,427,182	AAA	S&P
Mutual funds	82,303,978	AAAm	S&P

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. As of June 30, 2020 and 2019, the BWL's investment portfolio was concentrated as follows:

Investment	2020	2019
Fannie Mae	9%	1%
Freddie Mac	12%	2%

Fair Value

The BWL categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

The following investments are recorded at fair value using *the Matrix Pricing Technique*.

Investment	June 30, 2020			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	\$ -	\$ 89,467,364	\$ -	\$ 89,467,364
Supra National Agency Bonds	-	5,621,116	-	5,621,116
Federal Agency Mortgage-Backed Security	-	7,454,646	-	7,454,646
Federal Agency Collateralized Mortgage Obligation	-	14,806,748	-	14,806,748
State and local bonds	-	2,887,393	-	2,887,393
Federal Agency Bond/Note	-	18,969,842	-	18,969,842
Total investments at fair value level	\$ -	\$ 139,207,109	\$ -	\$ 139,207,109

Investment	June 30, 2019			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	\$ -	\$ 324,831,542	\$ -	\$ 324,831,542
Supra National Agency Bonds	-	6,427,183	-	6,427,183
Federal Agency Mortgage-Backed Security	-	7,466,746	-	7,466,746
Federal Agency Collateralized Mortgage Obligation	-	8,878,500	-	8,878,500
Federal Agency Bond/Note	-	12,872,088	-	12,872,088
Total investments at fair value level	\$ -	\$ 360,476,059	\$ -	\$ 360,476,059

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

Fiduciary Fund Investments

Interest Rate Risk – Pension Trust Funds

At June 30, 2020, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
U.S. government obligations	\$ 2	1.2
Fixed income securities	283	20.8
Mutual Fund – Bond Funds	18,651,741	5.9
Money market trust funds	1,980,661	Less than 1 year

At June 30, 2019, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
U.S. government or agency bond	\$ 23,867,491	13.44
Fixed income securities	26,488,080	12.68
Mutual Fund – Bond Funds	17,172,978	4.9
Money market trust funds	5,400,601	Less than 1 year

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

Credit Risk – Pension Trust Funds

As of June 30, 2020, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 148,613,938	Not rated	Not rated
U.S. government - implicitly guaranteed	2	AA+	S&P
U.S. government - implicitly guaranteed	427,308	AA-	S&P
Stable value	36,833,694	AA-	S&P
Fixed income securities	283	AA	S&P
Money market trust funds	1,980,661	Not rated	Not rated

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

As of June 30, 2019, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 147,768,040	Not rated	Not rated
U.S. government – implicitly guaranteed	9,377,989	AA+	S&P
U.S. government – implicitly guaranteed	427,308	AA-	S&P
Stable value	36,352,914	AA-	S&P
Fixed income securities	3,152,282	AAA	S&P
Fixed income securities	8,465,822	AA+	S&P
Fixed income securities	1,272,217	AA	S&P
Fixed income securities	573,505	AA-	S&P
Fixed income securities	1,013,214	A+	S&P
Fixed income securities	2,058,948	A	S&P
Fixed income securities	2,648,909	A-	S&P
Fixed income securities	3,955,061	BBB+	S&P
Fixed income securities	2,125,469	BBB	S&P
Fixed income securities	1,135,991	BBB-	S&P
Fixed income securities	8,000	BB+	S&P
Fixed income securities	3,092	B+	S&P
Fixed income securities	75,570	B-	S&P
Money market trust funds	5,400,601	Not rated	Not rated

Fair Value – Pension Trust Funds

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under authoritative guidance are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

Level 2 – Inputs to the valuation methodology include:

- > quoted prices for similar assets or liabilities in active markets;
- > quoted prices for identical or similar assets or liabilities in inactive markets;
- > inputs other than quoted prices that are observable for the asset or liability;
- > inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- > If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observables and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019:

Money market fund, growth funds, and international funds: Valued at the quoted net asset value ("NAV") of shares held by the Plan at year end.

Common stock, corporate bonds and notes, U.S. government obligations, and fixed income securities: Valued at the most recent closing price reported on the market on which individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

Stable value fund: The Plus Fund is a collective fund that seeks to maintain a stable net asset value. It invests primarily in a diversified portfolio of stable-value investments, including traditional guaranteed investment contracts (traditional GICs), separate account GICs, synthetic GICs backed by fixed income securities or investments, and short-term investment funds, including money market mutual funds.

Guaranteed Lifetime Income fund: The Retirement Income Advantage Fund seeks both moderate capital growth and current income. It invests in a separate account under a group variable annuity. The separate account, in turn, invests in a mix of registered funds and a collective trust fund with an allocation of approximately 60% domestic and foreign equities and 40% fixed income.

Self-directed brokerage account: The self-directed brokerage account allows participants of the Plan the option of selecting a more personalized and broad range of investment choices. The investments within the account consist of corporate stocks, which are valued at the most recent closing price reported on the market on which individual securities are traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2020 and 2019:

Investment Type	June 30, 2020			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ -	\$ 1,980,661	\$ -	\$ 1,980,661
U.S. government obligations	-	283	-	283
Fixed income securities	-	2	-	2
Mutual funds	148,613,938	99,861,286	-	248,475,224
Common collective funds	-	56,792,990	-	56,792,990
Common stocks	95,715,429	-	-	95,715,429
Self-directed brokerage account	6,330,405	-	-	6,330,405
Total investments by fair value level	<u>\$ 250,659,772</u>	<u>\$ 158,635,222</u>	<u>\$ -</u>	<u>\$ 409,294,994</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 36,833,694
Guaranteed lifetime income				8,975,990
Total investments measured at fair value				<u>\$ 455,104,678</u>
Investment Type	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ -	\$ 5,400,601	\$ -	\$ 5,400,601
U.S. government obligations	-	23,867,491	-	23,867,491
Fixed income securities	-	26,488,080	-	26,488,080
Mutual funds	147,768,040	106,004,183	-	253,772,223
Common collective funds	-	15,855,280	-	15,855,280
Common stocks	77,698,376	-	-	77,698,376
Self-directed brokerage account	3,787,956	-	-	3,787,956
Total investments by fair value level	<u>\$ 229,254,372</u>	<u>\$ 177,615,635</u>	<u>\$ -</u>	<u>\$ 406,870,007</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 36,352,914
Guaranteed lifetime income				8,940,026
Total investments measured at fair value				<u>\$ 452,162,947</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Cash, Investments, and Fair Value Disclosure (Continued)

Investments Measured Using NAV per Share Practical Expedient: The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$36,833,694 and \$36,352,914 as of June 30, 2020 and 2019, respectively and the guaranteed lifetime income fund had a fair value of \$8,975,990 and \$8,940,026, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

Note 3 – Restricted Assets

Restricted assets are required under the 2011A, 2013A, 2017A, 2018A, 2019A and 2019B 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	Carrying Value	
	June 30, 2020	2020	2019
Current			
Operations and Maintenance Fund	\$ 33,287,100	\$ 94,144,920	\$ 71,340,480
Bond and Interest Redemption Fund	<u>36,673,667</u>	<u>36,673,667</u>	<u>45,813,543</u>
Total current	<u>69,960,767</u>	<u>130,818,587</u>	<u>117,154,023</u>
Noncurrent			
Construction Fund	<u>140,848,613</u>	<u>140,848,613</u>	<u>282,919,314</u>
Total noncurrent	<u>140,848,613</u>	<u>140,848,613</u>	<u>282,919,314</u>
Total	<u>\$ 210,809,380</u>	<u>\$ 271,667,200</u>	<u>\$ 400,073,337</u>

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the years ended 2020 and 2019.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 3 – Restricted Assets (Continued)

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 2011A, 2013A, 2017A, 2018A, 2019A and 2019B Revenue Bonds.
- **Construction Fund** – Restricted for utility system upgrades as required by the 2019A Revenue Bonds.

Note 4 – Utility Plant

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2020 and 2019:

Capital Asset Activity for Year Ended June 30, 2020

	<u>Capital Assets</u> <u>FY Start</u>	<u>Transfers</u>	<u>Acquisition</u>	<u>Retirement</u>	<u>Capital Assets</u> <u>FY End</u>
Water	\$ 328,004,577	\$ 1,402,047	\$ 10,681,177	\$ (3,759,514)	\$ 336,328,287
Electric	795,361,687	2,332,302	20,516,823	(9,329,993)	808,880,819
Steam	80,233,333	1,367,468	1,061,240	(559,627)	82,102,414
Chilled	34,083,868	69	1,079	-	34,085,016
Common	103,276,137	708,809	5,250,156	(2,978,298)	106,256,804
AUC	<u>69,536,946</u>	<u>(43,321,170)</u>	<u>200,629,346</u>	<u>-</u>	<u>226,845,122</u>
Total	<u>\$ 1,410,496,548</u>	<u>\$ (37,510,475)</u>	<u>\$ 238,139,821</u>	<u>\$ (16,627,432)</u>	<u>\$ 1,594,498,462</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2020

	<u>Accum. Depr.</u> <u>FY Start</u>	<u>Depreciation</u> <u>Transfer</u>	<u>Depr. / Amort.</u> <u>and Impairment</u> <u>for Year</u>	<u>Depreciation</u> <u>Retirement</u>	<u>Accum. Depr.</u> <u>FY End</u>
Water	\$ (114,060,990)	\$ 137,488	\$ (7,146,494)	\$ 2,820,610	\$ (118,249,387)
Electric	(409,140,094)	18,296	(33,090,181)	8,618,831	(433,593,153)
Steam	(23,575,250)	(26,453)	(2,705,591)	103,549	(26,203,745)
Chilled	(13,766,590)	-	(1,177,948)	-	(14,944,537)
Common	(51,206,838)	(129,331)	(7,481,152)	2,828,525	(55,988,791)
Total	<u>\$ (611,749,762)</u>	<u>\$ -</u>	<u>\$ (51,601,366)</u>	<u>\$ 14,371,515</u>	<u>\$ (648,979,613)</u>

Non-depreciable assets – Included in the table above are non-depreciable assets of \$1,216,026 for water, \$14,865,816 for electric, \$124,224 for steam, and \$412,339 for common facilities.

Capital Asset Activity for Year Ended June 30, 2019

	<u>Capital Assets</u> <u>FY Start</u>	<u>Transfers</u>	<u>Acquisition</u>	<u>Retirement</u>	<u>Capital Assets</u> <u>FY End</u>
Water	\$ 316,440,019	\$ 1,995,266	\$ 10,247,352	\$ (678,060)	\$ 328,004,577
Electric	730,148,451	25,919,804	44,845,110	(5,551,678)	795,361,687
Steam	78,115,677	197,023	2,024,979	(104,346)	80,233,333
Chilled	34,078,066	-	5,802	-	34,083,868
Common	92,072,756	6,790,434	5,948,456	(1,535,509)	103,276,137
AUC	38,518,401	(97,974,227)	128,992,772	-	69,536,946
Total	<u>\$ 1,289,373,370</u>	<u>\$ (63,071,700)</u>	<u>\$ 192,064,471</u>	<u>\$ (7,869,593)</u>	<u>\$ 1,410,496,548</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2019

	Accum. Depr. FY Start	Depreciation Transfer	Depr. / Amort. and Impairment for Year	Depreciation Retirement	Accum. Depr. FY End
Water	\$ (107,665,385)	\$ (19,329)	\$ (6,841,324)	\$ 465,048	\$ (114,060,990)
Electric	(381,167,741)	53,687	(31,412,860)	3,386,820	(409,140,094)
Steam	(21,083,078)	-	(2,528,928)	36,756	(23,575,250)
Chilled	(12,588,805)	-	(1,177,785)	-	(13,766,590)
Common	<u>(47,533,853)</u>	<u>(34,358)</u>	<u>(5,145,595)</u>	<u>1,506,968</u>	<u>(51,206,838)</u>
Total	<u>\$ (570,038,862)</u>	<u>\$ -</u>	<u>\$ (47,106,492)</u>	<u>\$ 5,395,592</u>	<u>\$ (611,749,762)</u>

Non-depreciable assets – Included in in the table above are non-depreciable assets of \$1,216,026 for water, \$14,865,816 for electric, \$124,224 for steam, and \$412,339 for common facilities.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Long-term Debt

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

	<u>2020</u>	<u>2019</u>
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Taxable Bonds, Series 2019B, due in annual principal installments beginning July 1, 2023 and continuing through July 1, 2041, plus interest at rates ranging from 1.95% to 3.53%. Original amount of issue \$251,995,000.	\$ 251,995,000	\$ -
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2019A, due in annual principal installments beginning July 1, 2020 and continuing through July 1, 2048, plus interest at rates ranging from 4.00% to 5.00%. Original amount of issue \$319,875,000.	319,875,000	319,875,000
Water Supply, Steam, Chilled Water and Electric Utility System Revenue Refunding Bonds, Series 2017A, due in annual principal installments beginning July 1, 2019 and continuing through July 1, 2032, plus interest at a rate of 5.00%. Original amount of issue \$30,365,000.	28,760,000	30,365,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2013A, due in annual principal installments beginning July 1, 2014 through July 1, 2026, plus interest at rates ranging from 2.00% to 5.00%. Original amount of issue \$21,085,000.	13,450,000	15,035,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bonds, 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%. Original amount of issue \$250,000,000.	7,780,000	249,980,000

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Long-term Debt (Continued)

	<u>2020</u>	<u>2019</u>
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%. Original amount of issue \$13,225,385.	\$ 6,087,135 *	\$ 6,745,123
Lansing Economic Development Corp due in annual installments of \$4,500 through 2022.	9,000*	13,500
Charter Township of Lansing Special Assessment pertaining to the Groesbeck II Park Drain. Due in annual installments ranging from \$132,000 to \$291,000 with final payment in 2044.	3,157,634*	3,283,939
	<u>631,113,769</u>	<u>625,297,562</u>
Total	631,113,769	625,297,562
Less current portion	(7,942,341)	(7,608,792)
Plus unamortized premium	<u>69,056,254</u>	<u>77,011,183</u>
Total long-term portion	<u>\$ 692,227,682</u>	<u>\$ 694,699,953</u>

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

* – The debt noted is directly placed with a third party.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Long-term Debt (Continued)

Aggregate principal and interest payments applicable to revenue debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 7,145,000	\$ 22,418,248	\$ 29,563,248
2022	10,435,000	25,698,115	36,133,115
2023	13,105,000	25,271,365	38,376,365
2024	13,565,000	24,804,346	38,369,346
2025	14,055,000	24,310,194	38,365,194
2026–2030	77,810,000	113,616,085	191,426,085
2031–2035	92,885,000	98,814,002	191,699,002
2036–2040	111,665,000	80,669,551	192,334,551
2041–2045	169,895,000	52,474,121	222,369,121
2046–2048	<u>111,300,000</u>	<u>11,311,000</u>	<u>122,611,000</u>
Total	<u>\$ 621,860,000</u>	<u>\$ 479,387,027</u>	<u>\$ 1,101,247,027</u>

Aggregate principal and interest payments applicable to direct placement debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 797,341	\$ 263,733	\$ 1,061,074
2022	807,081	244,108	1,051,189
2023	808,537	224,219	1,032,756
2024	819,635	204,237	1,023,872
2025	777,438	184,669	962,107
2026–2030	3,136,441	657,930	3,794,371
2031–2035	844,244	374,508	1,218,752
2036–2040	631,527	227,170	858,697
2041–2045	<u>631,525</u>	<u>85,189</u>	<u>716,714</u>
Total	<u>\$ 9,253,769</u>	<u>\$ 2,465,763</u>	<u>\$ 11,719,532</u>

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL. 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Long-term Debt (Continued)

The 2019B Bonds are payable in annual installments in the years 2023 through 2041, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2030 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, 2029 at par plus accrued interest to the fixed date for redemption.

The 2019A Bonds are payable in annual installments in the years 2022 through 2048, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2028 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, 2028 at par plus accrued interest to the fixed date for redemption.

The 2017A Bonds are payable in annual installments in the years 2019 through 2027, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds, or portions of the bonds in multiples of \$5,000 maturing or subject to mandatory redemption in the years 2028 and thereafter, 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, 2027 at par plus accrued interest to the fixed date for redemption.

The 2013A Bonds are payable in annual installments in the years 2014 to 2024, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2024 shall be subject to redemption at the option of the BWL on or after July 1, 2023 as a whole or in part at any time and by lot within a maturity at par plus accrued interest to the redemption date.

The Series 2011A Bonds are payable in annual installments in the years 2015 to 2022, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2022 shall be subject to redemption at the option of the BWL on or after July 1, 2021 as a whole or in part at any time and by lot within a maturity at par plus interest accrued to the redemption date. These bonds were part of an advanced refunding with the issuance of the 2019B Revenue bonds. The final maturity for these bonds are on July 1, 2022.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Long-term Debt (Continued)

On December 19, 2019, bonds in the amount of \$251,995,000 were issued with an average interest rate of 2.89% to advance refund \$238,570,000 of outstanding bonds with an average interest rate of 4.95%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the advance refunding was \$422,836,632 from 2020 through 2041. The cash flow requirements on the new bonds are \$367,760,439 from 2020 through 2041. The advance refunding resulted in an economic gain of \$40,383,561.

The long-term debt activity for the year ended June 30, 2020 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 692,266,183	\$ 10,042,562	\$ 702,308,745
Additions	251,995,000	-	251,995,000
Reductions	<u>(253,344,929)</u>	<u>(788,793)</u>	<u>(254,133,722)</u>
Ending balance	<u>\$ 690,916,254</u>	<u>\$ 9,253,769</u>	<u>\$ 700,170,023</u>
Due within one year	\$ 7,145,000	\$ 797,341	\$ 7,942,341

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds total \$1,101,247,027. During the current year, net revenues of the BWL were \$106,340,000 compared to the annual debt requirements of \$35,585,000.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Long-term Debt (Continued)

The long-term debt activity for the year ended June 30, 2019 is as follows:

	<u>Revenue Bonds</u>	<u>Other Notes</u>	<u>Total</u>
Beginning balance	\$ 316,373,336	\$ 10,868,022	\$ 327,241,358
Additions	385,333,509	65,550,000	450,883,509
Reductions	<u>(9,440,662)</u>	<u>(66,375,460)</u>	<u>(75,816,122)</u>
Ending balance	<u>\$ 692,266,183</u>	<u>\$ 10,042,562</u>	<u>\$ 702,308,745</u>
Due within one year	\$ 6,820,000	\$ 788,792	\$ 7,608,792

Note 6 – Costs/Credits Recoverable in Future Years

Environmental Remediation

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, 2020 and 2019 was \$359,813 and \$485,811, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009, regulatory accounting as per GASB 62 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2020 and 2019 for additional sites was \$798,299 and \$1,949,918, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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

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 power supply cost recovery (PSCR) adjustment, power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electric, 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 \$(3,322,683) and \$(8,087,614) at June 30, 2020 and 2019, respectively. This amount represents costs to be billed (credited) to customers in future years because actual costs of providing utilities were higher (lower) 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 \$1,552,783 and \$3,811,772 as of June 30, 2020 and 2019, respectively.

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. The remaining recoverable inflow of resources of \$1,101,358 and \$1,321,629 as of June 30, 2020 and 2019, respectively. The BWL will recognize this as revenue monthly over the life of the new chilled water plant to offset depreciation expense.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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

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 13). The remaining recoverable inflow of resources as of June 30, 2020 and 2019 was \$8,761,743 and \$9,744,369, respectively.

Other Items

Other items recognized as recoverable inflows total \$500,000 and \$500,000 at June 30, 2020 and 2019, respectively.

Note 7 – Transactions with the City of Lansing, Michigan

Operations – The BWL recognized revenue of \$9,359,715 and \$12,714,325 in 2020 and 2019, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$573,138 and \$824,634 in 2020 and 2019, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$964,920 and \$1,019,935 in 2020 and 2019, respectively, included in other income.

Return on Equity – Effective July 1, 1992, the BWL entered into an agreement with the City to provide 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. The return on equity represents compensation to the City for a permanent easement granted to the BWL. Effective March 1, 2002, the formula to calculate the amount owed to the City for return on equity 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 in semi-annual installments. Effective July 1, 2020, the BWL and the City agreed to pay a flat fee for fiscal years 2020 through 2022. Under terms of these agreements, the BWL paid to the City \$23,100,000 in 2020 and \$21,110,884 in 2019 of operational cash flow in excess of debt service requirements.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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

Defined Benefit Plan

Plan Description – The BWL administers the Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions (“Defined Benefit Plan”) – a noncontributory single-employer defined benefit pension plan for employees of the BWL. The benefit terms were established by the BWL and may be amended by future BWL actions.

The 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 Lansing Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

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, 2020 and 2019.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Employees Covered by Benefit Terms – At February 29, 2020 and February 28, 2019 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	<u>2020</u>	<u>2019</u>
Inactive plan members or beneficiaries currently receiving benefits	318	337
Inactive plan members entitled to but not yet receiving benefits	3	3
Active plan members	<u>3</u>	<u>5</u>
Total	<u><u>324</u></u>	<u><u>345</u></u>

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

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

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

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL retains an independent actuary to determine the annual contribution. The actuarially determined contribution 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, 2019 and 2020. Plan documents do not require participant contributions.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Net Pension Asset – The components of the net pension asset of the BWL at June 30, 2020 and June 30, 2019 were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 52,198	\$ 53,826
Plan fiduciary net pension	<u>55,586</u>	<u>60,422</u>
Plan's net pension asset	<u>\$ (3,388)</u>	<u>\$ (6,596)</u>
Plan fiduciary net position, as a percentage of the total pension liability	106.49%	112.25%

The BWL has chosen to use June 30, 2020 as its measurement date for fiscal year 2020. The June 30, 2020 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2020. The June 30, 2020 total pension liability was determined by an actuarial valuation as of February 29, 2020, which used update procedures to roll forward the estimated liability to June 30, 2019.

The BWL has chosen to use June 30, 2019 as its measurement date for fiscal year 2019. The June 30, 2019 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2019. The June 30, 2019 total pension liability was determined by an actuarial valuation as of February 28, 2019, which used update procedures to roll forward the estimated liability to June 30, 2018.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

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

	(in thousands)		
	Total Pension Liability	Plan Net Position	Net Pension Asset
Balance at June 30, 2018	\$ 55,751	\$ 62,367	\$ (6,616)
Changes for the year:			
Service cost	60	-	60
Interest	3,691	-	3,691
Differences between expected and actual experience	(743)	-	(743)
Changes in assumptions	1,210	-	1,210
Net investment income	-	4,381	(4,381)
Benefit payments, including refunds	(6,143)	(6,143)	-
Administrative expenses	-	(183)	183
Miscellaneous other charges	-	-	-
Net changes	(1,925)	(1,945)	20
Balances at June 30, 2019	<u>\$ 53,826</u>	<u>\$ 60,422</u>	<u>\$ (6,596)</u>
Changes for the year:			
Service cost	\$ 42	\$ -	\$ 42
Interest	3,566	-	3,566
Change in benefit terms			-
Differences between expected and actual experience	(919)	-	(919)
Changes in assumptions	1,555	-	1,555
Net investment income	-	1,658	(1,658)
Benefit payments, including refunds	(5,872)	(5,872)	-
Administrative expenses	-	(145)	145
Miscellaneous other charges	-	(477)	477
Net changes	(1,628)	(4,836)	3,208
Balance at June 30, 2020	<u>\$ 52,198</u>	<u>\$ 55,586</u>	<u>\$ (3,388)</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2020, the BWL recognized pension expense of \$1,902,048. At June 30, 2020, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,642,478	\$ –

For the year ended June 30, 2019, the BWL recognized pension expense of \$1,615,810. At June 30, 2019, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 337,272	\$ –

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

<u>Years Ending June 30</u>	
2021	\$ 9,300
2022	740,430
2023	423,105
2024	<u>469,643</u>
Total	<u>\$ 1,642,478</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2020 and June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2020</u>	<u>2019</u>
Inflation	2.25%	2.50%
Salary increases	3.50%	3.50%
Investment rate of return	6.50%	7.00%

Mortality rates were based on the PUB-2010 General Mortality Table with MP-2019 Improvement Scale for the June 30, 2020 valuation. The June 30, 2019 valuation used the PUB-2010 General Employees Mortality Table and projected using the MP-2018 scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 3 active participants in fiscal year 2020 and 5 active participants in fiscal year 2019, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Discount Rate – The discount rate used to measure the total pension liability was 6.50 percent in 2020 and 7 percent in 2019. 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Projected Cash Flows

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

The long-term expected rate of return on Defined Benefit Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2020 and 2019 for each major asset class included in the Defined Benefit Plan's target asset allocation, as disclosed in the Defined Benefit Plan's financial statements, are summarized in the following table:

<u>Asset Class</u>	<u>2020 Long-term Expected Real Rate of Return</u>	<u>2019 Long-term Expected Real Rate of Return</u>
Core bonds	2.60%	2.62%
Multi-sector	3.43%	3.49%
Liquid absolute return	3.25%	3.75%
U.S. large cap equity	7.14%	7.21%
U.S. small cap equity	8.43%	8.42%
Non-U.S. equity	8.37%	8.34%
Core real estate	6.73%	6.78%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate – The following presents the net pension asset of the BWL at June 30, 2020, calculated using the discount rate of 6.50 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 (5.5 percent) or 1 percentage-point higher (7.5 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset) of the BWL	\$ (1,477,448)	\$ (3,388,473)	\$ (6,060,344)

The following presents the net pension asset of the BWL at June 30, 2019, calculated using the discount rate of 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset) of the BWL	\$ (1,697,353)	\$ (6,595,727)	\$ (9,364,768)

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Defined Contribution Plan

The Lansing Board of Water and Light Defined Contribution Plan and Trust 1 (“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 Defined Contribution Plan issues a publicly available financial report. That report may be obtained by writing to the Lansing 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.

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 9.5 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, 2020 and 2019, the BWL contributed \$6,733,020 and \$6,618,384, 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*.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

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 (OPEB)

Plan Description – The Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light (“Retiree Benefit Plan and Trust”) 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 754 participants eligible to receive benefits at June 30, 2020 and 745 participants eligible at June 30, 2019.

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, 2020 and 2019, the cost to BWL of maintaining the Retiree Benefit Plan and Trust was \$9,156,565 and \$9,277,538, of which respectively, was incurred as direct costs of benefits.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

Benefits Provided – The Plan provides medical, dental, and life insurance benefits in accordance with Section 5–203 of the City Charter. Benefits are provided through third-party insurers, and the full cost of the benefits is covered by the plan.

Employees covered by benefit terms. At June 30, 2020, the following employees were covered by the benefit terms:

Active plan members (not eligible to receive benefits)	676
Disabled participants	75
Retired participants	532
Surviving spouses	<u>147</u>
Total	<u>1,430</u>

At June 30, 2019, the following employees were covered by the benefit terms:

Active plan members (not eligible to receive benefits)	690
Disabled participants	78
Retired participants	523
Surviving spouses	<u>144</u>
Total	<u>1,435</u>

Contributions – Section 5–203 of the City Charter grants the authority to establish and amend the contribution requirement to the BWL. The BWL establishes its minimum contribution based on an actuarially determined rate. For the years ended June 30, 2020 and 2019, the actual contribution rates of the BWL were 15.7 percent and 16.3 percent of covered–employee payroll, respectively.

Net OPEB Liability (Asset) – The BWL has chosen to use June 30, 2020 as its measurement date for fiscal year 2020. The June 30, 2020 reported net OPEB liability (asset) was determined using a measure of the total OPEB liability and the OPEB net position as of June 30, 2020. The June 30, 2020 total OPEB liability was determined by an actuarial valuation as of February 29, 2020, which used update procedures to roll forward the estimated liability to June 30, 2020.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

The BWL has chosen to use June 30, 2019 as its measurement date for fiscal year 2019. The June 30, 2019 reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of June 30, 2019. The June 30, 2019 total OPEB liability was determined by an actuarial valuation as of February 28, 2019, which used update procedures to roll forward the estimated liability to June 30, 2019.

Actuarial Assumptions – The total OPEB liability in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurements, unless otherwise specified:

Inflation	2.25 percent
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit/productivity increases.
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation

Healthcare cost trend rates	<u>FYE</u>	<u>Medical / RX</u>		<u>Part B</u>	<u>Dental</u>
		<u>Pre-65</u>	<u>Post-65</u>		
	2020	8.25%	6.50%	3.25%	4.75%
	2021	8.00%	6.25%	3.50%	4.50%
	2022	7.75%	6.00%	3.75%	4.25%
	2023	7.50%	5.75%	4.00%	4.00%
	2024	7.25%	5.50%	4.25%	4.00%
	2025	7.00%	5.25%	4.50%	4.00%
	2026	6.75%	5.00%	4.75%	4.00%
	2027	6.50%	4.75%	5.00%	4.00%
	2028	6.25%	4.50%	5.00%	4.00%
	2029	6.00%	4.50%	5.00%	4.00%
	2030	5.75%	4.50%	5.00%	4.00%
	2031	5.50%	4.50%	5.00%	4.00%
	2032	5.25%	4.50%	5.00%	4.00%
	2033	5.00%	4.50%	5.00%	4.00%
	2034	4.75%	4.50%	5.00%	4.00%
	2035	4.50%	4.50%	5.00%	4.00%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

The total OPEB liability in the June 30, 2019 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurements, unless otherwise specified:

Inflation	3.0 percent
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit/productivity increases.
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation

Healthcare cost trend rates	<u>FYE Medical / RX</u>		<u>Part B</u>	<u>Dental</u>
	<u>Pre-65</u>	<u>Post-65</u>		
2019	8.50%	7.00%	3.00%	5.00%
2020	8.25%	6.75%	3.25%	4.75%
2021	8.00%	6.50%	3.50%	4.50%
2022	7.75%	6.25%	3.75%	4.25%
2023	7.50%	6.00%	4.00%	4.00%
2024	7.25%	5.75%	4.25%	4.00%
2025	7.00%	5.50%	4.50%	4.00%
2026	6.75%	5.25%	4.75%	4.00%
2027	6.50%	5.00%	5.00%	4.00%
2028	6.25%	4.75%	5.00%	4.00%
2029	6.00%	4.50%	5.00%	4.00%
2030	5.75%	4.25%	5.00%	4.00%
2031	5.50%	4.25%	5.00%	4.00%
2032	5.25%	4.25%	5.00%	4.00%
2033	5.00%	4.25%	5.00%	4.00%
2034	4.75%	4.25%	5.00%	4.00%
2035	4.50%	4.25%	5.00%	4.00%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

2020 Mortality rates were based on the PUBH-2010 General Employee Mortality Table fully generational using Scale MP-2019.

2019 Mortality rates were based on the PUBH-2010 General Employee Mortality Table fully generational using Scale MP-2018.

Best actuarial practices call for a periodic assumption review and BWL completed an experience study in 2017.

BWL's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of the Board of Commissioners. It is the policy of the BWL to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2020 and 2019:

<u>Asset Class</u>	<u>2020 Target Allocation</u>	<u>2019 Target Allocation</u>
Core bonds	15.00%	15.00%
Multi-sector	5.00%	5.00%
Liquid absolute return	5.00%	5.00%
U.S. large cap equity	30.00%	30.00%
U.S. small cap equity	10.00%	10.00%
Non-U.S. equity	20.00%	20.00%
Core real estate	8.00%	8.00%
Value add RE	7.00%	7.00%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

The long-term expected rate of return on OPEB 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 OPEB 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. The best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 and June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>2020 Long-term Expected Real Rate of Return</u>	<u>2019 Long-term Expected Real Rate of Return</u>
Core bonds	2.60%	2.62%
Multi-sector	3.43%	3.49%
Liquid absolute return	3.25%	3.75%
U.S. large cap equity	7.14%	7.21%
U.S. small cap equity	8.43%	8.42%
Non-U.S. equity	8.37%	8.34%
Core real estate	6.73%	6.78%
Value add RE	8.23%	7.29%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

For the June 30, 2020 valuation, the long-term expected rate of return was 7.00%. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments was selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown. The final equivalent single discount rate used for the June 30, 2020 valuation was 7.00% with the expectation that BWL will continue contributing the actuarially determined contribution and/or paying for the pay-go cost.

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fidelity 20-year Go Municipal Bond Index	2.21%
Actual Discount Rate Used	7.00%

Discount rate – The discount rate used to measure the total OPEB liability as of June 30, 2020 and June 30, 2019 was 7.0 percent and 7.5 percent respectively. 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. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2019	\$ 148,549,677	\$ 195,158,575	\$ (46,608,898)
Changes for the year:			
Service cost	3,244,596	-	3,244,596
Interest	10,804,062	-	10,804,062
Change in benefit terms	-	-	-
Differences between expected and actual experience	(6,092,830)	-	(6,092,830)
Changes in assumptions	7,253,746	-	7,253,746
Contributions-employer	-	9,156,565	(9,156,565)
Contributions-employee	-	-	-
Net investment income	-	4,158,328	(4,158,328)
Benefit payments	(9,156,565)	(9,156,565)	-
Administrative expense	-	(512,101)	512,101
Net changes	<u>6,053,009</u>	<u>3,646,227</u>	<u>2,406,782</u>
Balances at 6/30/2020	<u><u>\$ 154,602,686</u></u>	<u><u>\$ 198,804,802</u></u>	<u><u>\$ (44,202,116)</u></u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2018	<u>\$ 203,487,065</u>	<u>\$ 184,039,624</u>	<u>\$ 19,447,441</u>
Changes for the year:			
Service cost	4,402,631	-	4,402,631
Interest	14,919,912	-	14,919,912
Change in benefit terms	(414,594)	-	(414,594)
Differences between expected and actual experience	(5,231,311)	-	(5,231,311)
Changes in assumptions	(59,336,488)	-	(59,336,488)
Contributions-employer	-	9,277,538	(9,277,538)
Contributions-employee	-	-	-
Net investment income	-	11,687,551	(11,687,551)
Benefit payments	(9,277,538)	(9,277,538)	-
Administrative expense	-	(568,600)	568,600
Net changes	<u>(54,937,388)</u>	<u>11,118,951</u>	<u>(66,056,339)</u>
Balances at 6/30/2019	<u><u>\$ 148,549,677</u></u>	<u><u>\$ 195,158,575</u></u>	<u><u>\$ (46,608,898)</u></u>

Sensitivity of the net OPEB liability (asset) to changes in the discount rate – The following presents the net OPEB liability (asset) of BWL, as well as what BWL’s net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (7.0 percent) than the current discount rate (7.0 percent) as of June 30, 2020:

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

	June 30, 2020		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(26,376,741)	\$(44,202,116)	\$(59,182,348)

Sensitivity of the net OPEB liability (asset) to changes in the discount rate – The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (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 discount rate (7.5 percent) as of June 30, 2019:

	June 30, 2019		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(30,506,982)	\$(46,608,898)	\$(60,250,506)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates – The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates as of June 30, 2020:

	June 30, 2020		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(60,529,722)	\$(44,202,116)	\$(24,480,910)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates – The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates as of June 30, 2019:

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

	June 30, 2019		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(61,585,517)	\$(46,608,898)	\$(28,613,760)

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light June 30, 2020 GASB 74/75 Report, issued July 14, 2020.

For the year ended June 30, 2020, the Plan recognized OPEB expense of \$(9,700,346). At June 30, 2020, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,030,980	\$ 13,937,809
Changes of assumptions	6,093,332	42,366,343
Net difference between projected and actual earnings on OPEB plan investments	<u>9,151,331</u>	<u>-</u>
Total	<u>\$ 17,275,643</u>	<u>\$ 56,304,152</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:

2021	\$(9,643,068)
2022	(8,385,798)
2023	(9,028,095)
2024	(8,569,218)
2025	(3,448,944)
Thereafter	46,614

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Retirement Plans (Continued)

For the year ended June 30, 2019, the Plan recognized OPEB expense of \$(6,226,213).

At June 30, 2019, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,843,372	\$ 11,190,994
Changes of assumptions	-	52,281,843
Net difference between projected and actual earnings on OPEB plan investments	<u>337,263</u>	<u>-</u>
Total	<u>\$ 3,180,635</u>	<u>\$ 63,472,837</u>

Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457. 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 \$1,500 in a calendar year.

Note 9 – Commitments and Contingencies

At June 30, 2020, and 2019, the BWL has two letters of credit in the amounts of \$817,000 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 postclosure monitoring and maintenance of a landfill site operated by the BWL.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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 received landfill closure approval as well as interim remediation approval. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of \$6,388,002 and \$6,902,174 for the years ended June 30, 2020 and 2019, respectively. Certain remediation activities have commenced and are in progress. The landfill sites are no longer receiving waste products. Landfill closure and postclosure requirements are associated with the Michigan Department of Environmental Quality. Annual postclosure costs of these landfill sites are not expected to exceed \$380,000 annually and are included in the liability above. Estimates will be revised as approvals are received from the State. In accordance with the regulatory basis of accounting as per GASB 62 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6).

The BWL 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, 2020 and 2019 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling \$12,024,000 through December 31, 2022. 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 \$19,363,000 through December 2022.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 9 – Commitments and Contingencies (Continued)

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete various projects is approximately \$381,296,000 and \$463,704,000 at June 30, 2020 and 2019, respectively, including commitments on existing construction contracts approximating \$96,692,000 and \$139,992,000 at June 30, 2020 and 2019, respectively. These projects will be funded through revenue bonds and 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.

Environmental Protection Agency (EPA) Notice of Finding of Violation

On March 19, 2015, the EPA served the BWL with a Notice of Finding of Violation specifically focused on BWL's Erickson capital projects. These cases were settled during fiscal year 2020, with total mitigation costs totaling \$610,000. The mitigation costs will be incurred over 3 years once the matter is settled and the entire cost is included in the financial statements as presented.

Note 10 – Power Supply Purchase

In 1983, the BWL entered into power supply and project support contracts with 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 Plant (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 capital 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.

<u>Year</u>	<u>Capital</u>	<u>Estimated Fixed Operating Costs</u>	<u>Total Required</u>
2021	\$ 321,450	\$ 14,050,498	\$ 14,371,948
Total	<u>\$ 321,450</u>	<u>\$ 14,050,498</u>	<u>\$ 14,371,948</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 10 – Power Supply Purchase (Continued)

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

The BWL recognized expenses for 2020 and 2019 of \$22,136,209 and \$28,650,463, 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 capital costs.

The BWL has entered into agreements with Energy Developments Limited, formerly Granger Electric Company, to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028 and September 30, 2028, and includes an early termination option. The power to be purchased in the contract is 11.2 megawatts. On September 30, 2020, the BWL agreed to utilize the early termination option. The total termination payment paid was \$14,135,424. The estimated total cost of electricity expected to be purchased is \$2,905,355.

Note 11 – 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 2011A, 2013A, 2017A, and 2019A 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, 2020 and 2019. 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 12 – 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.

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 three fiscal years were as follows:

	Workers' Compensation			Health Insurance		
	2020	2019	2018	2020	2019	2018
Unpaid claims - Beginning of year	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000	\$ 1,167,466	\$ 1,167,466	\$ 1,167,466
Incurred claims, including claims incurred but not reported	75,235	390,707	128,524	14,848,056	11,990,226	14,494,539
Claim payments	<u>(75,235)</u>	<u>(390,707)</u>	<u>(128,524)</u>	<u>(14,697,982)</u>	<u>(11,990,226)</u>	<u>(14,494,539)</u>
Unpaid claims - End of year	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 1,317,540</u>	<u>\$ 1,167,466</u>	<u>\$ 1,167,466</u>

The liability for health insurance is included with accounts payable on the statement of net position.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 13 – Upcoming Pronouncements

GASB has approved Statement No. 84 *Fiduciary Activities*, Statement No. 87 *Leases*, Statement No. 90 *Majority Equity Interests*, Statement No. 91 *Conduit Debt Obligations*, Statement No. 92 *Omnibus*, Statement No. 96 *Subscription-Based Information Technology Arrangements*, and Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years.

Required Supplemental Information

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for Employees' Pensions**

	Required Supplemental Information (Unaudited) Schedule of Changes in the BWL's Net Pension Asset and Related Ratios Last Ten Fiscal Years (in thousands)									
	2020	2019	2018	2017	2016	2015	2014	2013	2012*	2011*
Total Pension Liability										
Service cost	\$ 42	\$ 60	\$ 50	\$ 113	\$ 223	\$ 274	\$ 349	\$ 407	\$ -	\$ -
Interest	3,566	3,691	4,031	4,317	4,625	4,919	4,751	5,085	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(919)	(743)	(230)	(383)	299	(1,093)	964	(1,716)	-	-
Changes in assumptions	1,555	1,210	1,419	(857)	(1,468)	-	4,538	-	-	-
Benefit payments, including refunds	(5,872)	(6,143)	(6,414)	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-
Net Change in Total Pension Liability	(1,628)	(1,925)	(1,144)	(4,283)	(4,217)	(3,946)	2,061	(4,001)	-	-
Total Pension Liability - Beginning of year	<u>53,826</u>	<u>55,751</u>	<u>56,895</u>	<u>61,178</u>	<u>65,395</u>	<u>69,341</u>	<u>67,280</u>	<u>71,281</u>	-	-
Total Pension Liability - End of year	52,198	53,826	55,751	56,895	61,178	65,395	69,341	67,280	-	-
Plan Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	1,658	4,381	3,112	8,272	47	1,771	14,243	10,170	-	-
Administrative expenses	(145)	(183)	(255)	(317)	(388)	(576)	(596)	(536)	-	-
Benefit payments, including refunds	(5,872)	(6,143)	(6,414)	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-
Other	(477)	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	(4,836)	(1,945)	(3,557)	482	(8,237)	(6,850)	5,106	1,857	-	-
Net Position Restricted for Pensions - Beginning of year	<u>60,422</u>	<u>62,367</u>	<u>65,924</u>	<u>65,442</u>	<u>73,679</u>	<u>80,529</u>	<u>75,424</u>	<u>73,567</u>	-	-
Net Position Restricted for Pensions - End of year	<u>55,586</u>	<u>60,422</u>	<u>62,367</u>	<u>65,924</u>	<u>65,442</u>	<u>73,679</u>	<u>80,530</u>	<u>75,424</u>	-	-
BWL Net Pension Asset - Ending	<u>\$ (3,388)</u>	<u>\$ (6,596)</u>	<u>\$ (6,616)</u>	<u>\$ (9,029)</u>	<u>\$ (4,264)</u>	<u>\$ (8,284)</u>	<u>\$ (11,189)</u>	<u>\$ (8,144)</u>	<u>\$ -</u>	<u>\$ -</u>
Plan Net Position as a % of Total Pension Liability	106.49%	112.25%	111.87%	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %
Covered Employee Payroll	\$ 240	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ -	\$ -
BWL's Net Pension Asset as a % of Covered Employee Payroll	(1,412%)	(1,625%)	(1,097%)	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2011 - 2012 is not available and this schedule will be presented on a prospective basis.

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for Employees' Pensions**

**Required Supplemental Information (Unaudited)
Schedule of Employer Contributions
Last Ten Fiscal Years
(in thousands)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	86
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 240	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ 2,101	\$ 2,398
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	3.59%

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Changes in BWL's
Net OPEB Liability and Related Ratios
Last Ten Fiscal Years
(in thousands)**

	2020	2019	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*
Total OPEB Liability										
Service cost	\$ 3,245	\$ 4,403	\$ 4,827	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	10,804	14,920	15,039	14,226	-	-	-	-	-	-
Changes in benefit terms	-	(415)	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(6,093)	(5,231)	(9,880)	5,281	-	-	-	-	-	-
Changes in assumptions	7,254	(59,336)	(1,728)	(2,027)	-	-	-	-	-	-
Benefit payments, including refunds	(9,157)	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-
Net Change in Total OPEB Liability	6,053	(54,937)	(2,137)	11,036	-	-	-	-	-	-
Total OPEB Liability - Beginning of year	148,550	203,487	205,624	194,588	-	-	-	-	-	-
Total OPEB Liability - End of year	154,603	148,550	203,487	205,624	-	-	-	-	-	-
Trust Net Position										
Contributions - Employer	9,157	9,278	10,395	9,574	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	4,158	11,688	11,039	18,040	-	-	-	-	-	-
Administrative expenses	(512)	(569)	(634)	(705)	-	-	-	-	-	-
Benefit payments, including refunds	(9,157)	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	3,646	11,119	10,405	17,335	-	-	-	-	-	-
Trust fiduciary net position - Beginning of year	195,159	184,040	173,635	156,300	-	-	-	-	-	-
Trust fiduciary net position - End of year	198,805	195,159	184,040	173,635	-	-	-	-	-	-
BWL Net OPEB Liability (Asset) - Ending	<u>\$ (44,202)</u>	<u>\$ (46,609)</u>	<u>\$ 19,447</u>	<u>\$ 31,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Trust Fiduciary Net Position as a % of Total OPEB Liability (Asset)	128.59%	131.38%	90.44%	84.44%	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	\$ 58,198	\$ 56,785	\$ 55,650	\$ 54,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BWL's Net OPEB Liability (Asset) as a % of Covered Employee Payroll	(75.95%)	(82.08%)	34.95%	58.82%	- %	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2011 - 2016 is not available and this schedule will be presented on a prospective basis.

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Employer Contributions
Last Ten Fiscal Years
(in thousands)**

Fiscal Year Ended	Employer Contributions		Difference of Required to Actual Contributions	Covered Employee Payroll	Percentage of Actual Contributions to Covered Payroll
	Required	Actual			
6/30/2011	17,300	17,236	(64)	47,213	37%
6/30/2012	15,774	15,854	80	46,885	34%
6/30/2013	13,994	14,045	51	47,468	30%
6/30/2014	9,200	9,268	68	46,971	20%
6/30/2015	5,762	9,671	3,909	50,885	19%
6/30/2016	5,788	9,423	3,635	53,893	17%
6/30/2017	7,508	9,574	2,066	54,383	18%
6/30/2018	7,535	10,395	2,860	55,650	19%
6/30/2019	7,031	9,278	2,247	56,785	16%
6/30/2020	-	9,157	9,157	58,198	16%

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2020 and 2019

Defined Benefit Plan:

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2020, based on roll-forward of February 29, 2020 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	2.25 percent
Salary increases	3.5 percent per year
Investment rate of return	6.0 percent per year compounded annually
Mortality Scale	PUB-2010 General Mortality Table with MP-2019 Improvement Scale

Changes to assumptions: The mortality improvement scale was updated to the MP-2019 improvement scale. The discount rate was decreased from 7.00% to 6.50%.

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2019, based on roll-forward of February 28, 2019 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	2.5 percent
Salary increases	3.5 percent per year
Investment rate of return	7.0 percent per year compounded annually
Mortality Scale	PUB-2010 General Mortality Table with MP-2018 Improvement Scale

Changes to assumptions: The mortality table was changed to the PUB-2010 General Mortality Table and the improvement scale was updated to the MP-2018 improvement scale.

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2020 and 2019

Significant Changes:

June 30, 2020

- > Difference between actual and expected experience – The \$.92MM actuarial gain on the Total Pension Liability for the fiscal year ending June 30, 2020 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$1.55MM actuarial loss due to the change in the mortality improvement scale and the decrease the discount rate from 7.00% to 6.50%. Updating the mortality improvement scale to the MP-2019 scale resulted in a \$.22MM actuarial gain and decreasing the discount rate resulted in a \$1.77MM actuarial loss. The combination of these two changes resulted in an overall actuarial loss of \$1.55MM.

June 30, 2019

- > Difference between actual and expected experience – The \$.74MM gain on the Total Pension Liability for the fiscal year ending June 30, 2019 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$1.21MM loss due to the change of the mortality assumption from the RP-2014 Total Dataset Mortality adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUB-2010 General Employees Mortality, projected generationally using the MP-2018 improvement scale.

June 30, 2018

- > Difference between actual and expected experience – The \$230,000 gain on the Total Pension Liability for the fiscal year ending June 30, 2018 is primarily attributable to participant deaths.
- > Assumption change – Assumptions for the discount rate and expected return on assets were decreased from 7.50% to 7.00% to reflect the expected long term rate of return on the trust.

June 30, 2017

- > Difference between actual and expected experience – The \$383,000 gain on the Total Pension Liability for the fiscal year ending June 30, 2017 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$.86MM gain due to the change of the mortality assumption from the RP-2014 table projected generationally with Scale MP-2014 with MP-2016 Improvement Scale.

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2020 and 2019

Significant Changes (Continued):

June 30, 2016

- > Difference between actual and expected experience – The \$299,000 loss on the Total Pension Liability for the fiscal year ending June 30, 2016 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$1.47MM gain due to the change of the mortality assumption from the RP-2014 table projected generationally with Scale MP-2014 with MP-2015 Improvement Scale.

June 30, 2014

- > Difference between actual and expected experience – The \$964,000 loss on the Total Pension Liability for the fiscal year ending June 30, 2014 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$4.54MM loss due to the change of the mortality assumption from the RP2000CH table projected to 2018 with Scale AA to the RP-2014 table projected generationally with Scale MP-2014.

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2020 and 2019

Post Retirement Benefit Plan:

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2020, based on roll-forward of February 29, 2020 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	27 years
Inflation	2.25 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+. This percentage includes general wage inflation and merit / productivity increases.
Investment rate of return	7.0 percent per year compounded annually
Mortality	PUBH-2010 General Employees Mortality Table projected generationally using MP-2019 scale

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2019, based on roll-forward of February 28, 2019 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	28 years
Inflation	3.0 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+. This percentage includes general wage inflation and merit / productivity increases.
Investment rate of return	7.5 percent per year compounded annually
Mortality	PUBH-2010 General Mortality Table projected generationally using MP-2018 scale

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2020 and 2019

Significant Changes:

June 30, 2020

- > Difference between actual and expected experience – The \$6.09MM gain on the Total OPEB Liability for the fiscal year ending June 30, 2020 is attributable to the combination of unfavorable demographic experience and a reduction in the per capita claims cost used in the June 30, 2020 valuation. The \$1.13MM loss associated with demographic experience is mainly attributable to active participant retirements. The \$7.22MM gain due to a reduction in per capita claims cost is attributable a decrease in the Pre-65 medical and prescription drug premiums for 2020. The 2019 Pre-65 medical and Rx monthly premium for a retiree was \$1,073.13. For 2020, the Pre-65 medical and Rx monthly premium for a retiree is \$957.99. An 11% reduction in monthly premium. The combination of the demographic loss and the reduction in monthly premiums resulted in the overall \$6.09MM actuarial gain.
- > Assumption change – The \$7.25MM loss on the Total OPEB liability for the fiscal year ending June 30, 2020 is attributable to updating the mortality improvement scale to the MP-2019 scale and decreasing the discount rate from 7.50% to 7.00%. Updating the mortality improvement scale resulted in a \$.53MM actuarial gain. Whereas, decreasing the discount rate resulted in a \$7.78MM actuarial loss. The combination of these changes resulted in the overall \$7.25MM actuarial loss.

June 30, 2019

- > Difference between actual and expected experience – The \$5.2 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2019 is primarily due to favorable demographic experience. The favorable experience is mainly attributable to terminations of active participants and deaths of participants with and without beneficiaries.
- > Assumption changes – (1) The plan experienced a \$54.4 million gain on the Total OPEB Liability due to a change of the assumed per capita claims cost. The Board changed the Plan's insurance provider for Medicare eligible participants from The Hartford and EnvisionInsurance to Humana. Doing so resulted in a dramatic decrease in both the medical and prescription drug monthly premiums from the prior fiscal year (\$98.99 per month vs. \$219.54 per month for medical coverage and \$213.47 per month vs. \$305.00 per month for prescription drug coverage); (2) The Plan experienced a \$3.8 million loss on the mortality assumption change. The mortality assumption was updated from the RPH-2014 Total Dataset mortality, adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUBH-2010 General Employees mortality, projected generationally using the MP-2018 improvement scale; and (3) The Plan experienced a \$8.7 million gain on a change to the medical and prescription drug trend assumptions. The trend assumptions were changed to those prescribed under the Michigan Uniform Assumptions for the 2019 fiscal year.

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2020 and 2019

June 30, 2019 (Continued)

- > Change in benefit terms – The Plan experienced a \$.4 million gain due to an expected increase in the retiree contribution percentage for employees hired on or after January 1, 2009. The expected contribution percentage was increased from 14% to 20% of the premium charged to active employees.

June 30, 2018

- > Difference between actual and expected experience – The \$9.9 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2018 is attributable to a reduction in the per capita claims cost used in the 6/30/2018 valuation. Better than expected claims experience during the fiscal year resulted in a decrease in the projected claims when compared to those used in the 6/30/2017 valuation.
- > Assumption change – The mortality improvement scale was updated to the MP-2017 scale.

Additional Information

Board of Water and Light - City of Lansing, Michigan

Income Available for Revenue Bond Debt Retirement

	<u>For the Year Ended June 30</u>	
	<u>2020</u>	<u>2019</u>
Income - Before capital contributions per statement of revenues, expenses, and changes in net position	\$ 29,681,544	\$ 32,403,126
Adjustments to Income		
Depreciation	50,618,741	46,123,865
Interest on long-term debt:		
Notes	91,671	78,810
Revenue bonds	<u>26,208,473</u>	<u>15,443,098</u>
Total additional income	<u>76,918,885</u>	<u>61,645,773</u>
Income Available for Revenue Bonds and Interest Redemption	<u>\$ 106,600,429</u>	<u>\$ 94,048,899</u>
Debt Retirement Pertaining to Revenue Bonds		
Principal	\$ 7,145,000	\$ 6,820,000
Interest	<u>22,418,248</u>	<u>31,160,284</u>
Total	<u>\$ 29,563,248</u>	<u>\$ 37,980,284</u>
Percent Coverage of Revenue Bonds and Interest Requirements	<u>361</u>	<u>248</u>

Board of Water and Light - City of Lansing, Michigan

Detail of Statements of Revenues and Expenses For the Years Ended June 30, 2020 and 2019

	Combined		Water		Electric		Steam		Chilled Water	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Operating Revenues										
Water	\$ 45,923,606	\$ 42,851,399	\$ 45,923,606	\$ 42,851,399	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electric:										
Retail	293,119,138	280,612,893	-	-	293,119,138	280,612,893	-	-	-	-
Sales for resale	6,832,535	13,487,713	-	-	6,832,535	13,487,713	-	-	-	-
Steam	12,526,501	13,740,119	-	-	-	-	12,526,501	13,740,119	-	-
Chilled water	6,211,174	6,192,397	-	-	-	-	-	-	6,211,174	6,192,397
Total operating revenues	364,612,954	356,884,521	45,923,606	42,851,399	299,951,673	294,100,606	12,526,501	13,740,119	6,211,174	6,192,397
Operating Expenses										
Production:										
Fuel, purchased power, and other operating expenses	125,348,562	125,335,173	9,695,385	10,128,854	109,995,796	108,114,467	4,005,108	5,322,283	1,652,273	1,769,569
Maintenance	17,574,743	18,941,418	3,916,954	3,803,622	12,112,190	14,084,591	754,373	482,628	791,226	570,577
Transmission and distribution:										
Operating expenses	8,763,274	8,186,690	1,617,516	1,883,305	6,991,104	6,002,627	154,654	300,758	-	-
Maintenance	20,308,757	21,688,566	3,576,179	3,118,051	16,247,240	18,132,525	485,338	437,990	-	-
Administrative and general	72,827,369	70,664,307	14,818,670	12,314,058	54,579,769	55,896,376	2,449,988	1,830,404	978,942	623,469
Return on Equity	23,100,000	21,110,884	2,922,783	2,600,113	19,049,861	17,391,645	723,211	734,501	404,145	384,625
Depreciation	50,618,741	46,123,865	7,930,917	7,276,010	38,163,899	35,007,435	3,141,742	2,650,473	1,382,183	1,189,947
Total operating expenses	318,541,446	312,050,903	44,478,404	41,124,013	257,139,859	254,629,666	11,714,414	11,759,037	5,208,769	4,538,187
Operating Income	46,071,508	44,833,618	1,445,202	1,727,386	42,811,814	39,470,940	812,087	1,981,082	1,002,405	1,654,210
Nonoperating Income (Expenses)										
Investment income	11,006,985	5,464,438	850,937	928,249	9,601,244	3,900,767	416,510	417,796	138,294	217,626
Other (expense) income	(1,096,805)	(2,373,022)	191,043	967,508	(883,306)	(3,498,560)	(625,823)	(62,737)	221,281	220,767
Bonded debt interest expense	(26,208,473)	(15,443,098)	(1,316,694)	(1,386,974)	(22,783,371)	(11,476,150)	(1,644,702)	(2,053,740)	(463,706)	(526,234)
Other interest expense	(91,671)	(78,810)	(11,792)	(13,648)	(79,738)	(65,057)	(141)	(105)	-	-
Total nonoperating expense	(16,389,964)	(12,430,492)	(286,506)	495,135	(14,145,171)	(11,139,000)	(1,854,156)	(1,698,786)	(104,131)	(87,841)
Net Income (Loss)	\$ 29,681,544	\$ 32,403,126	\$ 1,158,696	\$ 2,222,521	\$ 28,666,643	\$ 28,331,940	\$ (1,042,069)	\$ 282,296	\$ 898,274	\$ 1,566,369

Board of Water and Light - City of Lansing, Michigan

Detail of Statements of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
Net Position - June 30, 2018	\$ 570,497,877	\$ 94,105,009	\$ 475,074,999	\$ (5,860,414)	\$ 7,178,283
Income (loss) before contributions	<u>32,403,126</u>	<u>2,222,521</u>	<u>28,331,940</u>	<u>282,296</u>	<u>1,566,369</u>
Net Position - June 30, 2019	602,901,003	96,327,530	503,406,939	(5,578,118)	8,744,652
Income (loss) before contributions	<u>29,681,544</u>	<u>1,158,696</u>	<u>28,666,643</u>	<u>(1,042,069)</u>	<u>898,274</u>
Net Position - June 30, 2020	<u>\$ 632,582,547</u>	<u>\$ 97,486,226</u>	<u>\$ 532,073,582</u>	<u>\$ (6,620,187)</u>	<u>\$ 9,642,926</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statements of Net Position

As of June 30, 2020				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - investment interest receivable	\$ -	\$ 2,247	\$ 26,604	\$ 28,851
Trade receivable - due from broker	-	-	13,252	13,252
Investments at fair value:				
Cash and money market trust fund	-	1,402,445	578,216	1,980,661
Fixed income securities	-	2	283	285
Mutual funds	148,613,938	27,724,349	72,136,937	248,475,224
Stable value	36,833,694	-	-	36,833,694
Guaranteed income fund	8,975,990	-	-	8,975,990
Common collective funds	-	15,936,209	40,856,781	56,792,990
Common stock	-	10,521,643	85,193,786	95,715,429
Self-directed brokerage account	6,330,405	-	-	6,330,405
Participants note receivable	3,251,182	-	-	3,251,182
Total investments	204,005,209	55,584,648	198,766,003	458,355,860
Liabilities				
Trade payable - due to broker	-	-	1,057	1,057
Net Position - Held in trust for pension and other employee benefits	\$ 204,005,209	\$ 55,586,895	\$ 198,804,802	\$ 458,396,906

As of June 30, 2019				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - investment interest receivable	\$ -	\$ 85,635	\$ 261,067	\$ 346,702
Trade receivable - due from broker	-	-	1,539	1,539
Investments at fair value:				
Cash and money market trust fund	-	1,963,325	3,437,276	5,400,601
U.S. government obligations	-	4,873,353	18,994,138	23,867,491
Fixed income securities	-	6,379,674	20,108,406	26,488,080
Mutual funds	147,768,040	30,566,813	75,437,370	253,772,223
Stable value	36,352,914	-	-	36,352,914
Guaranteed income fund	8,940,026	-	-	8,940,026
Common collective funds	-	6,029,465	9,825,815	15,855,280
Common stock	-	10,529,824	67,168,552	77,698,376
Self-directed brokerage account	3,787,956	-	-	3,787,956
Participants note receivable	3,422,076	-	-	3,422,076
Total investments	200,271,012	60,342,454	194,971,557	455,585,023
Liabilities				
Trade payable - due to broker	-	6,242	75,586	81,828
Net Position - Held in trust for pension and other employee benefits	\$ 200,271,012	\$ 60,421,847	\$ 195,158,577	\$ 455,851,436

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position For the Year Ended June 30, 2020

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in fair value of investments	\$ 3,326,676	\$ 492,124	\$ 1,326,808	\$ 5,145,608
Interest and dividend income	<u>5,365,500</u>	<u>1,165,787</u>	<u>2,831,518</u>	<u>9,362,805</u>
Net investment income	8,692,176	1,657,911	4,158,326	14,508,413
Employer contributions	6,733,020	-	9,156,565	15,889,585
Participant rollover contributions	466,139	-	-	466,139
Interest from participant notes receivable	<u>172,695</u>	<u>-</u>	<u>-</u>	<u>172,695</u>
Total increases	16,064,030	1,657,911	13,314,891	31,036,832
Decreases				
Retiree benefits paid	11,912,104	6,347,779	9,156,565	27,416,448
Loan defaults	232,785	-	-	232,785
Participants' note and administrative fees	<u>184,944</u>	<u>145,084</u>	<u>512,101</u>	<u>842,129</u>
Total decreases	<u>12,329,833</u>	<u>6,492,863</u>	<u>9,668,666</u>	<u>28,491,362</u>
Change in Net Position Held in Trust	3,734,197	(4,834,952)	3,646,225	2,545,470
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	<u>200,271,012</u>	<u>60,421,847</u>	<u>195,158,577</u>	<u>455,851,436</u>
End of year	<u>\$ 204,005,209</u>	<u>\$ 55,586,895</u>	<u>\$ 198,804,802</u>	<u>\$ 458,396,906</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position For the Year Ended June 30, 2019

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in fair value of investments	\$ 1,406,649	\$ 2,540,532	\$ 7,052,500	\$ 10,999,681
Interest and dividend income	<u>9,637,603</u>	<u>1,840,190</u>	<u>4,635,052</u>	<u>16,112,845</u>
Net investment income	11,044,252	4,380,722	11,687,552	27,112,526
Employer contributions	6,618,384	-	9,277,538	15,895,922
Participant rollover contributions	1,786,985	-	-	1,786,985
Interest from participant notes receivable	<u>210,373</u>	<u>-</u>	<u>-</u>	<u>210,373</u>
Total increases	19,659,994	4,380,722	20,965,090	45,005,806
Decreases				
Retiree benefits paid	13,639,444	6,142,622	9,277,538	29,059,604
Loan defaults	247,237	-	-	247,237
Participants' note and administrative fees	<u>169,865</u>	<u>183,238</u>	<u>568,600</u>	<u>921,703</u>
Total decreases	<u>14,056,546</u>	<u>6,325,860</u>	<u>9,846,138</u>	<u>30,228,544</u>
Change in Net Position Held in Trust	5,603,448	(1,945,138)	11,118,952	14,777,262
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	<u>194,667,564</u>	<u>62,366,985</u>	<u>184,039,625</u>	<u>441,074,174</u>
End of year	<u>\$ 200,271,012</u>	<u>\$ 60,421,847</u>	<u>\$ 195,158,577</u>	<u>\$ 455,851,436</u>

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for
Employees' Pensions**

**Financial Report
with Required Supplementary Information
As of and for the Years Ended June 30, 2020 and 2019**

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

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INDEPENDENT AUDITORS' 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
Defined Benefit Plan and Trust for Employees' Pensions
City of Lansing, Michigan

We have audited the accompanying financial statements of the Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions ("Plan") as of and for the years ended June 30, 2020 and 2019, and the related notes to the 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.

Auditors' 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 auditors' 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 Plan'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 Plan'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 fiduciary position of the Plan as of June 30, 2020 and 2019, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
September 2, 2020

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Management's Discussion and Analysis As of and for the Years Ended June 30, 2020 and 2019

Using this Annual Report

The annual report consists of two parts: (1) Management's Discussion and Analysis (this section) and (2) the financial statements. The financial statements include notes that explain information in the statements and provide more detail.

Condensed Financial Information

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

	2020	2019	2018
Assets held in trust:			
Money market collective trust fund	\$ 1,402,445	\$ 1,963,325	\$ 1,890,701
U.S. government obligations	-	4,873,353	7,966,488
Fixed income securities	2	6,379,674	12,372,866
Mutual funds	27,724,349	30,566,813	26,341,508
Common collective funds	15,936,209	6,029,465	-
Common stock	10,521,643	10,529,824	13,634,806
Trade Receivable - Due from Broker	-	-	11,853
Interest and dividend receivable	2,247	85,635	148,763
	\$ 55,586,895	\$ 60,428,089	\$ 62,366,985
Liabilities			
Accrued liabilities	\$ -	\$ 6,242	\$ -
Net Position Restricted for Pensions	55,586,895	60,421,847	62,366,985
	\$ 55,586,895	\$ 60,428,089	\$ 62,366,985
Changes in net position:			
Net investment income	\$ 1,657,911	\$ 4,380,722	\$ 3,112,090
Benefits payments	(6,347,779)	(6,142,622)	(6,413,954)
Administrative Fees	(145,084)	(183,238)	(254,964)
	\$ (4,834,952)	\$ (1,945,138)	\$ (3,556,828)

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Management's Discussion and Analysis As of and for the Years Ended June 30, 2020 and 2019

Investment Results

The fiscal year ended June 30, 2020 saw a net investment gain of \$1.7 million. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

The Board of Water and Light – City of Lansing, Michigan's ("BWL") actuarially determined contribution (ADC) as determined by the BWL's actuary was \$0 in fiscal year 2020, therefore no employer contributions were required.

During fiscal year 2020 the Defined Benefit Plan and Trust for Employees' Pensions ("Plan") governance committee elected to make a onetime additional payment to Plan members for a total of \$476,125.

Investment Objectives and Asset Allocation

The Plan 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 considered 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.

The investment of Plan assets is intended to result in moderate, long-term capital appreciation through moderate risk-taking. The Plan's overall investment objective is to earn an average, annual return of 6.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

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

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Management's Discussion and Analysis
As of and for the Years Ended June 30, 2020 and 2019

Investment Objectives and Asset Allocation (Continued)

<u>Asset Class</u>	<u>Target Asset Allocation</u>
Core bonds	20%
Multi-sector	10%
Liquid absolute return	10%
U.S. large cap equity	25%
U.S. small cap equity	10%
Non-U.S. equity	20%
Core real estate	<u>5%</u>
Total	100%

Future Events

The Plan is currently overfunded, with a funded ratio (fiduciary net position divided by total pension liability) of 106 percent. This funding level results in an actuarially determined contribution of \$0 for fiscal year 2021. As a result, the BWL does not expect to make contributions to the trust in fiscal year 2021.

The Plan expects to make annual withdrawals of approximately \$6,000,000 to cover participant benefits in fiscal year 2021.

Contacting the Plan's Management

The financial report is intended to provide a general overview of the Plan's finances and to demonstrate accountability for the funds it administers. Questions about this report should be submitted to Lansing Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Statement of Plan Fiduciary Net Position

	As of June 30	
	2020	2019
Assets		
Investments at fair value:		
Cash and money market trust fund	\$ 1,402,445	\$ 1,963,325
U.S. government obligations	-	4,873,353
Fixed income securities	2	6,379,674
Mutual funds	27,724,349	30,566,813
Common collective funds	15,936,209	6,029,465
Common stocks	10,521,643	10,529,824
Total investments at fair value	55,584,648	60,342,454
Receivable - investment interest receivable	2,247	85,635
Total assets	55,586,895	60,428,089
Liabilities		
Trade payable - due to broker	-	6,242
Net Position Restricted for Pensions	\$ 55,586,895	\$ 60,421,847

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Statement of Changes in Plan Fiduciary Net Position

	For the Year Ended June 30	
	2020	2019
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 492,124	\$ 2,540,532
Interest and dividend income	1,165,787	1,840,190
Total investment income	1,657,911	4,380,722
Deductions		
Retiree benefits paid	6,347,779	6,142,622
Administrative expenses	145,084	183,238
Total deductions	6,492,863	6,325,860
Net Increase (Decrease) in Net Position	(4,834,952)	(1,945,138)
Net Position Restricted for Pensions		
Beginning of year	60,421,847	62,366,985
End of year	<u>\$ 55,586,895</u>	<u>\$ 60,421,847</u>

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Board of Water and Light – City of Lansing, Michigan (“BWL”) sponsors the Defined Benefit Plan and Trust for Employees’ Pensions (“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. 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 Document 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. 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.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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.

Expenses – Substantially all Plan expenses are paid by the Plan.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

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

Note 2 - Plan Description

Plan Administration – The BWL 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.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 - Plan Description (Continued)

Plan Membership – At February 28, 2020 and February 28, 2019 (the most recent actuarial valuation for funding purposes), Plan membership consisted of the following:

	<u>2020</u>	<u>2019</u>
Inactive Plan members or beneficiaries currently receiving benefits	318	337
Inactive Plan members entitled to but not yet receiving benefits	3	3
Active Plan members	<u>3</u>	<u>5</u>
Total	<u><u>324</u></u>	<u><u>345</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.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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 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, 2020 and 2019. Plan documents do not require participant contributions.

Plan Termination – Although the BWL Pension Board has not expressed any intent to terminate the Plan, the BWL Pension Board has the right to do so at any time. If the Plan is terminated, each employee who has a pension benefit under the Plan will be fully vested in that benefit. Those benefits shall be calculated on Plan termination as though each person had elected to receive his or her accrued benefit as a lump sum amount, although no employee would be required to accept his or her Plan termination distribution in the form of a lump sum. The lump sum amount to be paid to each individual in any of the forms permitted by the Plan would be calculated in accordance with the Plan document. On termination of the Plan, each employee would have recourse toward satisfaction of his or her nonforfeitable benefit from the Plan assets and from the general assets of the BWL and its successor.

The Plan 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, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 3 - Cash, Investments, and Fair Disclosure

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.

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. The Plan does not have any deposits exposed to custodial credit risk.

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 Plan and are therefore not subject to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with maturities 270 days or less. The average maturities of investments are as follows as of June 30, 2020:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 2	1.15 years
Money market trust fund	1,402,445	Less than 1 year
Portfolio weighted average maturity		1.15 years

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

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

The average maturities of investments are as follows as of June 30, 2019:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 4,873,353	13.71 years
Fixed income securities	6,379,674	11.82 years
Money market trust fund	1,963,325	Less than 1 year
Portfolio weighted average maturity		12.64 years

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. The credit quality ratings of debt securities are as follows as of June 30, 2020:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations – implicitly guaranteed	2	AA-	S&P
Money market trust funds	1,402,445	Not rated	Not rated

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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

The credit quality ratings of debt securities are as follows as of June 30, 2019:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations – implicitly guaranteed	1,666,023	AA+	S&P
U.S. government obligations – implicitly guaranteed	59,624	AA	S&P
Fixed income securities	529,124	AAA	S&P
Fixed income securities	2,408,117	AA+	S&P
Fixed income securities	193,685	AA	S&P
Fixed income securities	151,245	AA-	S&P
Fixed income securities	239,539	A+	S&P
Fixed income securities	421,563	A	S&P
Fixed income securities	589,348	A-	S&P
Fixed income securities	982,484	BBB+	S&P
Fixed income securities	504,100	BBB	S&P
Fixed income securities	276,899	BBB-	S&P
Fixed income securities	8,000	BB+	S&P
Fixed income securities	75,570	B-	S&P
Money market trust funds	1,963,325	Not rated	Not rated

Note 4 - 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, 2020 and 2019, there were no excess Plan assets available for transfer.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 - Tax Status

The Plan obtained, from the Internal Revenue Service, a determination letter dated November 4, 2011. The letter affirmed that the Plan complied with the requirements of Internal Revenue Code section 401(a). The Plan continues to operate as a qualified plan.

Note 6 - 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, 2020 and 2019:

<u>Asset Class</u>	<u>2020 Target Allocation</u>	<u>2019 Target Allocation</u>
Global Fixed Income	40%	40%
U.S. Equities	35%	35%
Non-U.S. Equities	20%	20%
Commercial real estate	5%	5%

Rate of Return – For the year ended June 30, 2020, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 2.90 percent. For the year ended June 30, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 7.39 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 7 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2020 and 2019 were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 52,198	\$ 53,826
Plan fiduciary net pension	<u>55,586</u>	<u>60,422</u>
Plan's net pension asset	<u>\$ (3,388)</u>	<u>\$ (6,596)</u>
Plan fiduciary net position, as a percentage of the total pension liability	106.49%	112.25%

Actuarial Assumptions – The June 30, 2020 total pension liability was determined by an actuarial valuation as of February 29, 2020, which used updated procedures to roll forward the estimated liability to June 30, 2020. The June 30, 2019 total pension liability was determined by an actuarial valuation as of February 28, 2019, which used updated procedures to roll forward the estimated liability to June 30, 2019. The total pension liability is determined by the Plan's independent actuary and is that amount that results from applying actuarial assumptions to adjust the total pension liability to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Benassist Actuaries was the actuary for the February 28, 2020 and February 28, 2019 valuations, respectively. The inflation rate used was 2.3 percent and 2.5 percent for the February 28, 2020 and February 28, 2019 valuations, respectively. Salary increase used was 3.5 percent for both the February 28, 2020 and February 28, 2019 valuations, respectively. The most recent experience review was completed in 2014. Since the Plan only covered 17 active participants in fiscal year 2014, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 7 - Net Pension Asset of the BWL (Continued)

The mortality table was based on the PUB-2010 General Mortality Table, Male and Female, projected generationally using the MP-2019 projection scale for the June 30, 2020 valuation. The June 30, 2019 valuation used the PUB-2010 General Mortality Table, Male and Female, projected generationally using the MP-2018 projection scale.

Discount Rate – The discount rate used to measure the total pension liability was 6.5 percent for June 30, 2020. The June 30, 2019 valuation used a 7.0 discount rate. The projection of cash flows used to determine the discount rate in both years assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows Section – Based on those assumptions, the 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 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 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 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, 2020 and 2019 for each major asset class included in the Plan's target asset allocation, as disclosed in Note 6, are summarized in the following table:

Asset Class	2020 Long-term Expected Real Rate of Return	2019 Long-term Expected Real Rate of Return
Core bonds	2.60%	2.62%
Multi-sector	3.43%	3.49%
Liquid absolute return	3.25%	3.75%
U.S. large cap equity	7.14%	7.21%
U.S. small cap equity	8.43%	8.42%
Non-U.S. equity	8.37%	8.34%
Core real estate	6.73%	6.78%

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 7 - 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 at June 30, 2020, calculated using the discount rate of 6.50 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 (5.50 percent) or 1 percentage point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset) of the BWL	\$ (1,477,448)	\$ (3,388,473)	\$ (6,060,344)

The following presents the net pension asset of the BWL at June 30, 2019, calculated using the discount rate of 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset) of the BWL	\$ (1,697,353)	\$ (6,595,727)	\$ (9,364,768)

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three Levels of the fair value hierarchy under authoritative guidance are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- > quoted prices for similar assets or liabilities in active markets;
- > quoted prices for identical or similar assets or liabilities in inactive markets;
- > inputs other than quoted prices that are observable for the asset or liability;
- > inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- > if the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observables and minimize the use of unobservable inputs.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019:

Money market fund: Valued at the quoted net asset value ("NAV") of shares held by the Plan at year end.

U.S. government obligations, common stock and fixed income securities: Valued at the most recent closing price reported on the market on which individual securities are traded.

Mutual and common collective funds: Valued at the daily closing price as reported by the fund. Mutual and common collective funds held by the Plan are open-end mutual and common collective funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual and common collective funds held by the Plan are deemed to be actively traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2020 and 2019:

Investment Type	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ -	\$ 1,402,445	\$ -	\$ 1,402,445
U.S. government obligations	-	2	-	2
Mutual funds	-	27,724,349	-	27,724,349
Common collective funds	-	15,936,209	-	15,936,209
Common stocks	<u>10,521,643</u>	-	-	<u>10,521,643</u>
Total	<u>\$ 10,521,643</u>	<u>\$ 45,063,005</u>	<u>\$ -</u>	<u>\$ 55,584,648</u>

Investment Type	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ -	\$ 1,963,325	\$ -	\$ 1,963,325
U.S. government obligations	-	4,873,353	-	4,873,353
Fixed income securities	-	6,379,674	-	6,379,674
Mutual funds	-	30,566,813	-	30,566,813
Common collective funds	-	6,029,465	-	6,029,465
Common stocks	<u>10,529,824</u>	-	-	<u>10,529,824</u>
Total	<u>\$ 10,529,824</u>	<u>\$ 49,812,630</u>	<u>\$ -</u>	<u>\$ 60,342,454</u>

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 9 – Risks and Uncertainties

The total pension liability is reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

In addition, the Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Fiduciary Net Position.

Note 10 – Subsequent Events

The Plan has evaluated subsequent events occurring through the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Required Supplementary Information

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for Employees' Pensions**

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012*	2011*
Total Pension Liability										
Service cost	\$ 42	\$ 60	\$ 50	\$ 113	\$ 223	\$ 274	\$ 349	\$ 407	\$ -	\$ -
Interest	3,566	3,691	4,031	4,317	4,625	4,919	4,751	5,085	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(919)	(743)	(230)	(383)	299	(1,093)	964	(1,716)	-	-
Changes in assumptions	1,555	1,210	1,419	(857)	(1,468)	-	4,538	-	-	-
Benefit payments, including refunds	(5,872)	(6,143)	(6,414)	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-
Net Change in Total Pension Liability	(1,628)	(1,925)	(1,144)	(4,283)	(4,217)	(3,946)	2,061	(4,001)	-	-
Total Pension Liability - Beginning of year	<u>53,826</u>	<u>55,751</u>	<u>56,895</u>	<u>61,178</u>	<u>65,395</u>	<u>69,341</u>	<u>67,280</u>	<u>71,281</u>	-	-
Total Pension Liability - End of year	52,198	53,826	55,751	56,895	61,178	65,395	69,341	67,280	-	-
Plan Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	1,658	4,381	3,112	8,272	47	1,771	14,243	10,170	-	-
Administrative expenses	(145)	(183)	(255)	(317)	(388)	(576)	(596)	(536)	-	-
Benefit payments, including refunds	(5,872)	(6,143)	(6,414)	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-
Other	(477)	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	(4,836)	(1,945)	(3,557)	482	(8,237)	(6,850)	5,106	1,857	-	-
Net Position Restricted for Pensions - Beginning of year	<u>60,422</u>	<u>62,367</u>	<u>65,924</u>	<u>65,442</u>	<u>73,679</u>	<u>80,529</u>	<u>75,424</u>	<u>73,567</u>	-	-
Net Position Restricted for Pensions - End of year	<u>55,586</u>	<u>60,422</u>	<u>62,367</u>	<u>65,924</u>	<u>65,442</u>	<u>73,679</u>	<u>80,530</u>	<u>75,424</u>	-	-
BWL Net Pension Asset - Ending	<u>\$ (3,388)</u>	<u>\$ (6,596)</u>	<u>\$ (6,616)</u>	<u>\$ (9,029)</u>	<u>\$ (4,264)</u>	<u>\$ (8,284)</u>	<u>\$ (11,189)</u>	<u>\$ (8,144)</u>	<u>\$ -</u>	<u>\$ -</u>
Plan Net Position as a % of Total Pension Liability	106.49%	112.25%	111.87%	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %
Covered Employee Payroll	\$ 240	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ -	\$ -
BWL's Net Pension Asset as a % of Covered Employee Payroll	(1,412%)	(1,625%)	(1,097%)	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2011 - 2012 is not available and this schedule will be presented on a prospective basis.

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for Employees' Pensions**

**Required Supplemental Information (Unaudited)
Schedule of Employer Contributions
Last Ten Fiscal Years
(in thousands)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	86
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 240	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ 2,101	\$ 2,398
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	3.59%

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2020 and 2019

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2020, based on roll-forward of February 28, 2020 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	2.25 percent
Salary increases	3.5 percent per year
Investment rate of return	6.5 percent per year compounded annually
Mortality	PUB-2010 General Mortality Table with MP-2019 Improvement Scale

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2019, based on roll-forward of February 28, 2019 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	2.5 percent
Salary increases	3.5 percent per year
Investment rate of return	7.0 percent per year compounded annually
Mortality	PUB-2010 General Mortality Table with MP-2018 Improvement Scale

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2020 and 2019

Significant Changes:

June 30, 2020

- > Difference between actual and expected experience – The \$.92MM actuarial gain on the Total Pension Liability for the fiscal year ending June 30, 2020 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$1.55MM actuarial loss due to the change in the mortality improvement scale and the decrease the discount rate from 7.00% to 6.50%. Updating the mortality improvement scale to the MP-2019 scale resulted in a \$.22MM actuarial gain and decreasing the discount rate resulted in a \$1.77MM actuarial loss. The combination of these two changes resulted in an overall actuarial loss of \$1.55MM.

June 30, 2019

- > Difference between actual and expected experience – The \$.74MM gain on the Total Pension Liability for the fiscal year ending June 30, 2019 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$1.21MM loss due to the change of the mortality assumption from the RP-2014 Total Dataset Mortality adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUB-2010 General Employees Mortality, projected generationally using the MP-2018 improvement scale.

June 30, 2018

- > Difference between actual and expected experience – The \$230,000 gain on the Total Pension Liability for the fiscal year ending June 30, 2018 is primarily attributable to participant deaths.
- > Assumption change – Assumptions for the discount rate and expected return on assets were decreased from 7.50% to 7.00% to reflect the expected long term rate of return on the trust.

June 30, 2017

- > Difference between actual and expected experience – The \$383,000 gain on the Total Pension Liability for the fiscal year ending June 30, 2017 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$.86MM gain due to the change of the mortality assumption from the RP-2014 table projected generationally with Scale MP-2014 with MP-2016 Improvement Scale.

Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2020 and 2019

Significant Changes (Continued):

June 30, 2016

- > Difference between actual and expected experience – The \$299,000 loss on the Total Pension Liability for the fiscal year ending June 30, 2016 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$1.47MM gain due to the change of the mortality assumption from the RP-2014 table projected generationally with Scale MP-2014 with MP-2015 Improvement Scale.

June 30, 2014

- > Difference between actual and expected experience – The \$964,000 loss on the Total Pension Liability for the fiscal year ending June 30, 2014 is primarily attributable to participant deaths.
- > Assumption change – The plan experienced a \$4.54MM loss due to the change of 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
Defined Benefit Plan and Trust for Employees' Pensions**

**Required Supplemental Information (Unaudited)
Schedule of Investment Returns
Last Ten Fiscal Years**

	2020	2019	2018	2017	2016	2015	2014	2013*	2012*	2011*
Annual money-weighted rate of return, net of investment expense	2.90%	7.39%	4.97%	12.10%	(0.49%)	1.55%	19.18%	- %	- %	- %

*GASB 67 was implemented as of June 30, 2014. Information from 2011 - 2013 is not available and this schedule will be presented on a prospective basis

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Financial Report

With Required Supplementary Information

As of and for the Years Ended June 30, 2020 and 2019

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

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INDEPENDENT AUDITORS' 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 Defined
Contribution Plan and Trust 1
City of Lansing, Michigan

We have audited the accompanying financial statements of the Lansing Board of Water and Light Defined Contribution Plan and Trust 1 ("Plan"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the 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.

Auditors' 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 auditors' 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 Plan'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 Plan'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 fiduciary position of the Plan as of June 30, 2020 and 2019, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
September 2, 2020

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Management's Discussion and Analysis As of and for the Years Ended June 30, 2020 and 2019

Using this Annual Report

The annual report consists of two parts: (1) Management's Discussion and Analysis (this section) and (2) the financial statements. The financial statements include notes that explain information in the statements and provide more detail.

Condensed Financial Information

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

	2020	2019	2018
Assets held in trust:			
Mutual funds	\$ 148,613,938	\$ 147,768,040	\$ 145,098,563
Stable value	36,833,694	36,352,914	35,135,911
Guaranteed income fund	8,975,990	8,940,026	8,638,662
Self-directed brokerage account	6,330,405	3,787,956	2,144,556
Participant notes receivable	3,251,182	3,422,076	3,649,872
	\$ 204,005,209	\$ 200,271,012	\$ 194,667,564
Changes in plan assets:			
Net investment income	\$ 8,692,176	\$ 11,044,252	\$ 17,630,692
Employer and participant contributions	7,199,159	8,405,369	8,183,397
Benefits paid to participants	(11,912,104)	(13,639,444)	(16,928,587)
Loan defaults and other charges	(245,034)	(206,729)	(157,831)
	\$ 3,734,197	\$ 5,603,448	\$ 8,727,671

Investment Objectives

The principal purpose of the Lansing Board of Water and Light Defined Contribution Plan and Trust 1 ("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 applicable Michigan and federal law.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Management's Discussion and Analysis As of and for the Years Ended June 30, 2020 and 2019

Investment Objectives (Continued)

The Plan allows each participant to direct the investment of the funds in their Plan accounts. The Lansing Board of Water and Light ("BWL") offers various investment options (consistent with the investment policy statement) from 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 option is meeting its investment objectives.

Investment Results

The fiscal year ended June 30, 2020 saw a net investment gain of \$8.7 million. Total assets held in trust at the end of the fiscal year were \$204 million.

Future Events

The BWL has no plan to materially revise the terms of its Plan.

Contacting the Plan's Management

The financial report is intended to provide a general overview of the Plan's finances and to demonstrate accountability for the funds it administers. Questions about this report should be submitted to Lansing Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Statement of Fiduciary Net Position

	As of June 30	
	2020	2019
Assets		
Participant-directed investments (Note 1):		
Mutual funds	\$ 148,613,938	\$ 147,768,040
Stable value	36,833,694	36,352,914
Guaranteed income fund	8,975,990	8,940,026
Self-directed brokerage account	6,330,405	3,787,956
	<u>200,754,027</u>	<u>196,848,936</u>
Participant notes receivable	3,251,182	3,422,076
	<u>3,251,182</u>	<u>3,422,076</u>
Net Position Restricted for Pensions	\$ 204,005,209	\$ 200,271,012

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2020	2019
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 3,326,676	\$ 1,406,649
Dividend income	5,365,500	9,637,603
Total investment income	8,692,176	11,044,252
Employer contributions (Note 1)	6,733,020	6,618,384
Participant rollover contributions	466,139	1,786,985
Interest from participant notes receivable	172,695	210,373
Total additions	16,064,030	19,659,994
Deductions		
Benefits paid to participants	11,912,104	13,639,444
Loan defaults	232,785	247,237
Participants' note and administrative fees	184,944	169,865
Total deductions	12,329,833	14,056,546
Net Increase in Net Position	3,734,197	5,603,448
Net Position Restricted for Pensions		
Beginning of year	200,271,012	194,667,564
End of year	<u>\$ 204,005,209</u>	<u>\$ 200,271,012</u>

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 - Description of the Plan

The following description of Lansing Board of Water and Light Defined Contribution Plan and Trust 1 (“Plan”) provides only general information. Participants should refer to the Plan and Trust Document, in conjunction with the Plan Adoption Agreement, for a more complete description of the Plan’s provisions.

General – The Plan was established by the Lansing Board of Water and Light (“BWL”) in 1997 under Section 5-203 of the City Charter. Prior to its establishment, the BWL sponsored a defined benefit plan (Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions) 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 Plan. Those participants who elected to move to the Plan received lump-sum distributions from the defined benefit plan, which were rolled into their accounts in the Plan. Of the 760 active participants who were required to make this election, 602 elected to convert their retirement benefits to the Plan. As a result of this action, effective December 1, 1997, the Board of Commissioners transferred \$75,116,470 to the Plan, reflecting the plan participants’ accumulated benefits as of said date.

ICMA-RC, the Plan recordkeeper, is responsible for Plan administration and processing of participant investments.

Contributions – For eligible employees hired before January 1, 1997, the BWL is required to contribute 15 percent of the employees’ eligible compensation. For employees hired on or after January 1, 1997, the BWL is required to contribute 9.5 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. Effective November 26, 2019, the Lansing Board of Water and Light Retirement Plan Committee may amend the Plan’s provisions and contribution requirements.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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, 2020, there were 948 participants in the Plan, of which 656 were active employees. As of June 30, 2019, there were 936 participants in the Plan, of which 665 were active employees.

Vesting – The portion of employer contribution which is subject to vesting is vested on the following schedule: 25% vested after three years and an additional 25% after each subsequent completed year of service.

Investment Options – Participants may direct contributions to any of the following investment options, some of which are administered by subsidiaries (or related parties) of ICMA-RC. Since ICMA-RC is a service provider to the Plan, transactions in Vantagepoint and Vantage Trust funds qualify as party-in-interest transactions.

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 Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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.

VT Retirement IncomeAdvantage Fund: The VT Retirement IncomeAdvantage Fund seeks both moderate capital growth and current income. It invests in a separate account under a group variable annuity. The separate account, in turn, invests in a mix of registered funds and a collective trust fund with an allocation of approximately 60% domestic and foreign equities and 40% fixed income.

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.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 1 - Description of the Plan (Continued)

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. Upon reaching normal retirement age, a participant may elect to receive in service distributions.

Note 2 - Summary of Significant Accounting Policies

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 participant 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.

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 fair 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.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (Continued)

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 – Substantially all Plan expenses are paid by Plan participants.

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

Note 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 have authorized the investments according to Michigan PA 314 of 1965, as amended.

Custodial Credit Risk of Bank Deposits – As of June 30, 2020 and 2019, the Plan has no bank deposits.

Credit Risk – Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2020, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 148,613,938	Not rated	Not rated
Stable value	36,833,694	AA-	S&P

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 3 – Investments (Continued)

As of June 30, 2019, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 147,768,040	Not rated	Not rated
Stable value	36,352,914	AA	S&P

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Plan’s investment policy does not address this risk. At June 30, 2020, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual funds – Bond funds	\$18,651,741	5.9 years

At June 30, 2019, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual funds – Bond funds	\$17,172,978	4.9 years

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 4 - Plan Termination

Although it has not expressed any intention to do so, the BWL has the right under the provisions set forth in Article 14 of the Plan to terminate 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.

Note 6 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under authoritative guidance are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
 - > quoted prices for similar assets or liabilities in active markets;
 - > quoted prices for identical or similar assets or liabilities in inactive markets;
 - > inputs other than quoted prices that are observable for the asset or liability;
 - > inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
 - > if the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Fair Value Measurements (Continued)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observables and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019:

Money market fund, growth funds, and international funds: Valued at the quoted net asset value ("NAV") of shares held by the Plan at year-end.

Common stock and bond and equity funds: Valued at the most recent closing price reported on the market on which individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Stable value fund: The Vantagepoint PLUS Fund is a collective fund that seeks to maintain a stable net asset value. It invests primarily in a diversified portfolio of stable-value investments, including traditional guaranteed investment contracts (traditional GICs), separate account GICs, synthetic GICs backed by fixed income securities or investments, and short-term investment funds, including money market mutual funds.

Guaranteed Lifetime Income fund: The Vantage Trust Retirement Income Advantage Fund seeks both moderate capital growth and current income. It invests in a separate account under a group variable annuity. The separate account, in turn, invests in a mix of registered funds and a collective trust fund with an allocation of approximately 60% domestic and foreign equities and 40% fixed income.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Fair Value Measurements (Continued)

Self-directed brokerage account: The self-directed brokerage account allows participants of the Plan the option of selecting a more personalized and broad range of investment choices. The investments within the account consist of corporate stocks, which are valued at the most recent closing price reported on the market on which individual securities are traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2020 and 2019:

Investment Type	June 30, 2020			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Money market	\$ 340,907	\$ -	\$ -	\$ 340,907
Bond and equity funds	18,651,741	-	-	18,651,741
Stock funds	58,499,545	-	-	58,499,545
Balanced funds	54,465,725	-	-	54,465,725
International funds	16,656,020	-	-	16,656,020
Self-directed brokerage account	<u>6,330,405</u>	-	-	<u>6,330,405</u>
Total Investments by Fair Value Level	<u>\$ 154,944,343</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,944,343</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 36,833,694
Guaranteed Lifetime Income				<u>8,975,990</u>
Total Investments Measured at Fair Value				<u>\$ 200,754,027</u>

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Fair Value Measurements (Continued)

Investment Type	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Money market	\$ 541,492	\$ -	\$ -	\$ 541,492
Bond and equity funds	17,172,978	-	-	17,172,978
Stock funds	61,192,842	-	-	61,192,842
Balanced funds	53,135,058	-	-	53,135,058
International funds	15,725,670	-	-	15,725,670
Self-directed brokerage account	<u>3,787,956</u>	<u>-</u>	<u>-</u>	<u>3,787,956</u>
Total Investments by Fair Value Level	<u>\$ 151,555,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 151,555,996</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 36,352,914
Guaranteed Lifetime Income				<u>8,940,026</u>
Total Investments Measured at Fair Value				<u>\$ 196,848,936</u>

Investments Measured Using NAV per Share Practical Expedient: The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$36,833,694 and \$36,352,914 as of June 30, 2020 and 2019, respectively and the guaranteed lifetime income fund had a fair value of \$8,975,990 and \$8,940,026, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

Note 7 – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

Lansing Board of Water and Light Defined Contribution Plan and Trust 1

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Subsequent Events

The Plan has evaluated subsequent events occurring through the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Financial Report

With Required Supplementary Information

As of and for the Years Ended June 30, 2020 and 2019

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the City Council,
and Commissioners of the Board of Water and Light
Post-Retirement Benefit Plan and Trust for Eligible
Employees of Lansing Board of Water and Light
City of Lansing, Michigan

We have audited the accompanying financial statements of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan") as of and for the years ended June 30, 2020 and 2019, and the related notes to the 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.

Auditors' 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 auditors' 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 Plan'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 Plan'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 fiduciary position of the Plan as of June 30, 2020 and 2019, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
September 2, 2020

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Management's Discussion and Analysis As of and for the Years Ended June 30, 2020 and 2019

Using this Annual Report

The annual report consists of two parts: (1) Management's Discussion and Analysis (this section) and (2) the financial statements. The financial statements include notes that explain information in the statements and provide more detail.

Condensed Financial Information

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

	2020	2019	2018
Assets held in trust:			
Cash and money market trust funds	\$ 578,216	\$ 3,437,276	\$ 1,985,712
Fixed income securities	283	20,108,406	34,748,141
U.S. government obligations	-	18,994,138	26,527,961
Equities	85,193,786	67,168,552	48,418,160
Mutual funds	72,136,937	75,437,370	72,109,667
Common Collective	40,856,781	9,825,815	-
Interest and dividend receivable	26,604	261,067	404,369
Trade Receivable - Due from Broker	13,252	1,539	-
	<u>\$ 198,805,859</u>	<u>\$ 195,234,163</u>	<u>\$ 184,194,010</u>
Liabilities			
Trade payable - Due to Broker	\$ 1,057	\$ 75,586	\$ 154,385
	<u>\$ 198,804,802</u>	<u>\$ 195,158,577</u>	<u>\$ 184,039,625</u>
Net Position Restricted for Pensions			
Changes in net position:			
Net investment income	\$ 4,158,326	\$ 11,687,552	\$ 11,038,903
Employer contributions	9,156,565	9,277,538	10,395,327
Retiree benefits paid	(9,156,565)	(9,277,538)	(10,395,327)
Administrative Fees	(512,101)	(568,600)	(634,334)
	<u>\$ 3,646,225</u>	<u>\$ 11,118,952</u>	<u>\$ 10,404,569</u>
Net change in net position	<u>\$ 3,646,225</u>	<u>\$ 11,118,952</u>	<u>\$ 10,404,569</u>

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Management’s Discussion and Analysis As of and for the Years Ended June 30, 2020 and 2019

Investment Results

The fiscal year ended June 30, 2020 saw a net investment income of \$4.16 million. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

The Board of Water and Light – City of Lansing, Michigan’s (“BWL”) actuarially determined contribution (ADC) as determined by the BWL’s actuary was \$0 in fiscal year 2020. Therefore, no employer contributions were required.

The discount rate was 7.5 percent in fiscal year 2019 and 7.0 percent in fiscal year 2020.

Investment Objectives and Asset Allocation

The assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light (“Plan”), the BWL has considered 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.

The investment of assets is intended to result in moderate, long-term capital appreciation through moderate risk-taking. The Plan’s overall investment objective is to earn an average, annual return of 7.0% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>
Core bonds	15%
Multi-sector	5%
Liquid absolute return	5%
U.S. large cap equity	30%
U.S. small cap equity	10%
Non-U.S. equity	20%
Core real estate	8%
Value add RE	<u>7%</u>
Total	100%

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Management's Discussion and Analysis
As of and for the Years Ended June 30, 2020 and 2019

Future Events

The BWL intends to continue fund its actuarially determined contributions (ADC) annually.

Contacting the Plan's Management

The financial report is intended to provide a general overview of the Plan's finances and to demonstrate accountability for the funds it administers. Questions about this report should be submitted to Lansing Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Statement of Fiduciary Net Position

	As of June 30	
	2020	2019
Assets		
Investments - fair value:		
Cash and money market trust funds	\$ 578,216	\$ 3,437,276
Fixed income securities	283	20,108,406
U.S. government obligations	-	18,994,138
Equities	85,193,786	67,168,552
Mutual funds	72,136,937	75,437,370
Common collective funds	40,856,781	9,825,815
Total investments at fair value	198,766,003	194,971,557
Investment interest and dividend receivable	26,604	261,067
Trade receivable - due from broker	13,252	1,539
Total assets	198,805,859	195,234,163
Liabilities		
Trade payable - due to broker	1,057	75,586
Net position restricted for retiree benefits	\$ 198,804,802	\$ 195,158,577

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2020	2019
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 1,326,808	\$ 7,052,500
Interest and dividend income	2,831,518	4,635,052
Total investment income	4,158,326	11,687,552
Employer contributions	9,156,565	9,277,538
Total additions	13,314,891	20,965,090
Deductions		
Retiree benefits paid	9,156,565	9,277,538
Administrative expenses	512,101	568,600
Total deductions	9,668,666	9,846,138
Net Increase in Net Position	3,646,225	11,118,952
Net Position Restricted for Retiree Benefits		
Beginning of year	195,158,577	184,039,625
End of year	\$ 198,804,802	\$ 195,158,577

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Board of Water and Light - City of Lansing, Michigan ("BWL") sponsors the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan"), which is a single-employer defined benefit healthcare plan. The Plan was established on October 20, 1999, effective as of July 1, 1999, for the purpose of accumulating assets to fund retiree healthcare insurance costs in future years.

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. 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 - 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.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

Expenses – Substantially all Plan expenses are paid by the Plan.

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.

Note 2 - Description of the Plan

The following description of the Plan, a trust fund of the BWL, provides only general information. Participants should refer to the Plan document 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. The City Charter grants the authority to establish and amend the benefit terms to BWL. Substantially all of the BWL's employees may become eligible for insurance benefits under the Plan if they reach normal retirement age while working for the BWL. There were 754 participants eligible to receive benefits at June 30, 2020 and 745 participants eligible at June 30, 2019.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 2 - Description of the Plan (Continued)

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 Plan document of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Trustees – Each voting member of the BWL Board of Commissioners is a Trustee during the term of office as a commissioner. The Trustees have appointed Fifth Third Bank as custodian of the Plan's assets.

Contributions – Section 5–203 of the City Charter grants the authority to establish and amend the contribution requirement of the City and Plan members to BWL. The retiree benefits are paid by BWL's general cash flow to the third party administrators who process participant claims. These payments represent contributions to the Plan. Employer contributions in the statement of changes in net position are equal to the retiree benefits paid because the actuarially determined contribution (ADC) for the year ended June 30, 2020 was less than the pay-as-you-go amount. During the years ended June 30, 2020 and 2019, BWL incurred \$9,165,565 and \$9,277,538 in benefit payments, respectively. The BWL may make additional 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. Additional contributions are only made to the Plan if the ADC is more than the pay-as-you-go amount. 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. For the years ended June 30, 2020 and 2019, the contribution rates of the employers were 15.7 percent and 16.3 percent of covered-employee payroll, respectively.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 2 – Description of the Plan (Continued)

Participation – Participation in this Plan is determined in accordance with the terms of the Post-Retirement Benefit Plan and Trust for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2020, there were 676 active participants (not eligible to receive benefits), 75 disabled participants, 532 retired participants, and 147 surviving spouses participating in the Plan. At June 30, 2019, there were 690 active participants (not eligible to receive benefits), 78 disabled participants, 523 retired participants, and 144 surviving spouses participating in the Plan.

Vesting – Benefits become payable in accordance with the terms of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light. At no time will benefits of the Plan 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 3 - Cash, Investments, and Fair Disclosure

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.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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:

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. The Plan does not have any deposits exposed to custodial credit risk.

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 Plan 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 June 30, 2020, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Fixed income securities	283	20.3
Money market trust funds	578,216	Less than 1 year
Portfolio weighted average maturity	-	20.3

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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

At June 30, 2019 the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 18,994,138	12.80 years
Fixed income securities	20,108,406	11.48 years
Money market trust funds	3,437,276	Less than 1 year
Portfolio weighted average maturity	-	12.12 years

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 June 30, 2020, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Fixed income securities	283	AA	S&P
Money market trust funds	578,216	Not rated	Not rated

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

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

As of June 30, 2019, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations - implicitly guaranteed	\$ 7,711,966	AA+	S&P
U.S. government obligations - implicitly guaranteed	367,684	AA	S&P
Fixed income securities	2,623,158	AAA	S&P
Fixed income securities	6,057,705	AA+	S&P
Fixed income securities	1,078,532	AA	S&P
Fixed income securities	422,260	AA-	S&P
Fixed income securities	773,675	A+	S&P
Fixed income securities	1,637,385	A	S&P
Fixed income securities	2,059,561	A-	S&P
Fixed income securities	2,972,577	BBB+	S&P
Fixed income securities	1,621,369	BBB	S&P
Fixed income securities	859,092	BBB-	S&P
Fixed income securities	3,092	B+	S&P
Money market trust funds	3,437,276	Not rated	Not rated

Note 4 - 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.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 5 – Plan Investments - Policy and Rate of Return

BWL's policy in regard to the allocation of invested assets is established and may be amended by the BWL Board by a majority vote of its members. It is the policy of the BWL Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy as of June 30, 2020 and 2019:

Asset Class	2020 Target Allocation	2019 Target Allocation
Core bonds	15.00%	15.00%
Multi-sector	5.00%	5.00%
Liquid absolute return	5.00%	5.00%
U.S. large cap equity	30.00%	30.00%
U.S. small cap equity	10.00%	10.00%
Non-U.S. equity	20.00%	20.00%
Core real estate	8.00%	8.00%
Value add RE	7.00%	7.00%

Rate of Return – For the years ended June 30, 2020 and 2019 the annual money-weighted rate of return on investments, net of investment expense, was 2.13% and 6.36%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 – Net OPEB Liability (Asset) of BWL

Net OPEB Liability (Asset) of BWL –The components of the net OPEB liability (asset) for BWL at June 30, 2020 and 2019 were as follows:

	June 30, 2020	June 30, 2019
Total OPEB Liability	\$ 154,602,686	\$ 148,549,677
Plan fiduciary net position	(198,804,802)	(195,158,575)
BWL's net OPEB liability (asset)	\$ (44,202,116)	\$ (46,608,898)
Plan fiduciary net position as a percentage of the total OPEB Liability (asset)	128.59%	131.38%

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit / productivity increases
Long-term expected Rate of Return	7.0%
Healthcare cost trend rates	8.25% for 2020, decreasing 0.25% per year to an ultimate rate of 4.50% in 2035 and later years

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit / productivity increases
Long-term expected Rate of Return	7.5%
Healthcare cost trend rates	8.50% for 2019, decreasing 0.25% per year to an ultimate rate of 4.50% in 2035 and later years

For the June 30, 2020 and 2019 valuation, mortality rates were based on the PUBH-2010 General Mortality Table projected generationally using MP-2019 scale and MP-2018 scale, respectively.

Best actuarial practices call for a periodic assumption review and BWL had completed an experience study in 2017. At that time, Nyhart recommended BWL to complete another experience study prior to the fiscal year ending June 30, 2022 valuation.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

For the June 30, 2020 valuation, the long-term expected rate of return is 7.0%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return 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 for each major asset class included in the target asset allocation as of June 30, 2020 are as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.60%
Multi-sector	3.43%
Liquid absolute return	3.25%
U.S. large cap equity	7.14%
U.S. small cap equity	8.43%
Non-U.S. equity	8.37%
Core real estate	6.73%
Value add RE	8.23%

For the June 30, 2019 valuation, the long-term expected rate of return is 7.50%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return 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 for each major asset class included in the target asset allocation as of June 30, 2019 are as follows:

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.62%
Multi-sector	3.49%
Liquid absolute return	3.75%
U.S. large cap equity	7.21%
U.S. small cap equity	8.42%
Non-U.S. equity	8.34%
Core real estate	6.78%
Value add RE	7.29%

Discount Rate – The discount rate used to measure the total OPEB liability was 7.0% and 7.5% for June 30, 2020 and 2019, respectively. The discount rate is based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

Sensitivity of the net OPEB liability (asset) to changes in the discount rate The following presents the net OPEB liability (asset) of BWL, as well as what BWL’s net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current discount rate (7.0 percent) as of June 30, 2020:

	June 30, 2020		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(26,376,741)	\$(44,202,116)	\$(59,182,348)

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (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 discount rate (7.5 percent) as of June 30, 2019:

	June 30, 2019		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(30,506,982)	\$(46,608,898)	\$(60,250,506)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates

The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates as of June 30, 2020 and 2019:

	June 30, 2020		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(60,529,722)	\$(44,202,116)	\$(24,480,910)

	June 30, 2019		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(61,585,517)	\$(46,608,898)	\$(28,613,760)

Note 7 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under authoritative guidance are described as follows:

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 7 – Fair Value Measurements (Continued)

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
- > quoted prices for similar assets or liabilities in active markets;
 - > quoted prices for identical or similar assets or liabilities in inactive markets;
 - > inputs other than quoted prices that are observable for the asset or liability;
 - > inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
 - > if the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observables and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019:

Money market fund: Valued at the quoted net asset value ("NAV") of shares held by the Plan at year-end.

Common Stock, Fixed income securities, and U.S. government obligations: Valued at the most recent closing price reported on the market on which individual securities are traded.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements As of and for the Years Ended June 30, 2020 and 2019

Note 7 – Fair Value Measurements (Continued)

Mutual and common collective funds: Valued at the daily closing price as reported by the fund. Mutual and common collective funds held by the Plan are open-end mutual and common collective funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual and common collective funds held by the Plan are deemed to be actively traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2020 and 2019:

Investment Type	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ -	\$ 578,216	\$ -	\$ 578,216
Fixed income securities	-	283	-	283
Common Stock	85,193,786	-	-	85,193,786
Mutual funds	-	72,136,937	-	72,136,937
Common collective funds	-	40,856,781	-	40,856,781
Total	\$ 85,193,786	\$ 113,572,217	\$ -	\$ 198,766,003

Investment Type	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ -	\$ 3,437,276	\$ -	\$ 3,437,276
Fixed income securities	-	20,108,406	-	20,108,406
U.S. government obligations	-	18,994,138	-	18,994,138
Common Stock	67,168,552	-	-	67,168,552
Mutual funds	-	75,437,370	-	85,263,185
Common collective funds	-	9,825,815	-	-
Total	\$ 67,168,552	\$ 127,803,005	\$ -	\$ 194,971,557

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Note 8 – Risks and Uncertainties

Plan contributions are made and the accrued actuarial liability is reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

In addition, the Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

Note 9 – Subsequent Events

The Plan has evaluated subsequent events occurring through the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Required Supplementary Information

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Changes in BWL's
Net OPEB Liability and Related Ratios
Last Ten Fiscal Years
(in thousands)**

	2020	2019	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*
Total OPEB Liability										
Service cost	\$ 3,245	\$ 4,403	\$ 4,827	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	10,804	14,920	15,039	14,226	-	-	-	-	-	-
Changes in benefit terms	-	(415)	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(6,093)	(5,231)	(9,880)	5,281	-	-	-	-	-	-
Changes in assumptions	7,254	(59,336)	(1,728)	(2,027)	-	-	-	-	-	-
Benefit payments, including refunds	(9,157)	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-
Net Change in Total OPEB Liability	6,053	(54,937)	(2,137)	11,036	-	-	-	-	-	-
Total OPEB Liability - Beginning of year	<u>148,550</u>	<u>203,487</u>	<u>205,624</u>	<u>194,588</u>	-	-	-	-	-	-
Total OPEB Liability - End of year	154,603	148,550	203,487	205,624	-	-	-	-	-	-
Trust Net Position										
Contributions - Employer	9,157	9,278	10,395	9,574	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	4,158	11,688	11,039	18,040	-	-	-	-	-	-
Administrative expenses	(512)	(569)	(634)	(705)	-	-	-	-	-	-
Benefit payments, including refunds	(9,157)	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	3,646	11,119	10,405	17,335	-	-	-	-	-	-
Trust fiduciary net position - Beginning of year	<u>195,159</u>	<u>184,040</u>	<u>173,635</u>	<u>156,300</u>	-	-	-	-	-	-
Trust fiduciary net position - End of year	<u>198,805</u>	<u>195,159</u>	<u>184,040</u>	<u>173,635</u>	-	-	-	-	-	-
BWL Net OPEB Liability (Asset) - Ending	<u>\$ (44,202)</u>	<u>\$ (46,609)</u>	<u>\$ 19,447</u>	<u>\$ 31,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Trust Fiduciary Net Position as a % of Total OPEB Liability (Asset)	128.59%	131.38%	90.44%	84.44%	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	\$ 58,198	\$ 56,785	\$ 55,650	\$ 54,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BWL's Net OPEB Liability (Asset) as a % of Covered Employee Payroll	(75.95%)	(82.08%)	34.95%	58.82%	- %	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2011 - 2016 is not available and this schedule will be presented on a prospective basis.

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Employer Contributions
Last Ten Fiscal Years
(in thousands)**

Fiscal Year Ended	Employer Contributions		Difference of Required to Actual Contributions	Covered Employee Payroll	Percentage of Actual Contributions to Covered Payroll
	Required	Actual			
6/30/2011	17,300	17,236	(64)	47,213	37%
6/30/2012	15,774	15,854	80	46,885	34%
6/30/2013	13,994	14,045	51	47,468	30%
6/30/2014	9,200	9,268	68	46,971	20%
6/30/2015	5,762	9,671	3,909	50,885	19%
6/30/2016	5,788	9,423	3,635	53,893	17%
6/30/2017	7,508	9,574	2,066	54,383	18%
6/30/2018	7,535	10,395	2,860	55,650	19%
6/30/2019	7,031	9,278	2,247	56,785	16%
6/30/2020	-	9,157	9,157	58,198	16%

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Investment Returns
Last Ten Fiscal Years**

	2020	2019	2018	2017	2016	2015*	2014*	2013*	2012*	2011*
Annual money-weighted rate of return, net of investment expense	2.13%	6.36%	6.37%	10.01%	0.32%	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2011 - 2015 is not available and this schedule will be presented on a prospective basis.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2020 and 2019

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2020, based on roll-forward of February 28, 2020 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	27 years
Inflation	2.25 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+. This percentage includes general wage inflation and merit / productivity increases.
Investment rate of return	7.0 percent per year compounded annually
Mortality	PUBH-2010 General Mortality Table projected generationally using MP-2019 scale

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2019, based on roll-forward of February 28, 2019 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	28 years
Inflation	3.0 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+. This percentage includes general wage inflation and merit / productivity increases.
Investment rate of return	7.5 percent per year compounded annually
Mortality	PUBH-2010 General Mortality Table projected generationally using MP-2018 scale

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2020 and 2019

Significant Changes:

June 30, 2020

- > Difference between actual and expected experience – The \$6.09MM gain on the Total OPEB Liability for the fiscal year ending June 30, 2020 is attributable to the combination of unfavorable demographic experience and a reduction in the per capita claims cost used in the June 30, 2020 valuation. The \$1.13MM loss associated with demographic experience is mainly attributable to active participant retirements. The \$7.22MM gain due to a reduction in per capita claims cost is attributable a decrease in the Pre-65 medical and prescription drug premiums for 2020. The 2019 Pre-65 medical and Rx monthly premium for a retiree was \$1,073.13. For 2020, the Pre-65 medical and Rx monthly premium for a retiree is \$957.99. An 11% reduction in monthly premium. The combination of the demographic loss and the reduction in monthly premiums resulted in the overall \$6.09MM actuarial gain.
- > Assumption change – The \$7.25MM loss on the Total OPEB liability for the fiscal year ending June 30, 2020 is attributable to updating the mortality improvement scale to the MP-2019 scale and decreasing the discount rate from 7.50% to 7.00%. Updating the mortality improvement scale resulted in a \$.53MM actuarial gain. Whereas, decreasing the discount rate resulted in a \$7.78MM actuarial loss. The combination of these changes resulted in the overall \$7.25MM actuarial loss.

June 30, 2019

- > Difference between actual and expected experience – The \$5.2 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2019 is primarily due to favorable demographic experience. The favorable experience is mainly attributable to terminations of active participants and deaths of participants with and without beneficiaries.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2020 and 2019

Significant Changes (Continued):

- > Assumption changes – (1) The plan experienced a \$54.4 million gain on the Total OPEB Liability due to a change of the assumed per capita claims cost. The Board changed the Plan's insurance provider for Medicare eligible participants from The Hartford and Envision Insurance to Humana. Doing so resulted in a dramatic decrease in both the medical and prescription drug monthly premiums from the prior fiscal year (\$98.99 per month vs. \$219.54 per month for medical coverage and \$213.47 per month vs. \$305.00 per month for prescription drug coverage); (2) The Plan experienced a \$3.8 million loss on the mortality assumption change. The mortality assumption was updated from the RPH-2014 Total Dataset mortality, adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUBH-2010 General Employees Mortality, projected generationally using the MP-2018 improvement scale; and (3) The Plan experienced a \$8.7 million gain on a change to the medical and prescription drug trend assumptions. The trend assumptions were changed to those prescribed under the Michigan Uniform Assumptions for the 2019 fiscal year.
- > Change in benefit terms – The Plan experienced a \$.4 million gain due to an expected increase in the retiree contribution percentage for employees hired on or after January 1, 2009. The expected contribution percentage was increased from 14% to 20% of the premium charged to active employees.

June 30, 2018

- > Difference between actual and expected experience – The \$9.9 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2018 is attributable to a reduction in the per capita claims cost used in the 6/30/2018 valuation. Better than expected claims experience during the fiscal year resulted in a decrease in the projected claims when compared to those used in the 6/30/2017 valuation.
- > Assumption change – The mortality improvement scale was updated to the MP-2017 scale.

PROPOSED RESOLUTION
Fiscal Year 2020 Audited Financial Statements
of the Enterprise Fund and Pension Fiduciary Funds

RESOLVED, that the fiscal year 2020 Audited Financial Statements of the Board of Water and Light have been reviewed and are hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2020 Audited Financial Statements of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2020.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2020 Audited Financial Statements of the Board of Water and Light with the City of Lansing no later than October 2020.

RESOLUTION 2020-09-__
Capital Project Exceedance Approval

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

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

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

~~RESOLVED, that in the case of "planned" capital projects the total budget amount is the project's designed budget amount; and~~

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

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

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

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

-

This resolution supersedes Resolutions 2000-3-2, ~~and~~ 2001-6-16, and 2015-07-05.

Staff comments:

*In the existing Policy, a project’s Total Budget Amount can be based on the initiation (Intake) phase of a project. This amount is usually based on historical or industry estimates of similar projects **and** does not capture issues that can significantly affect the cost of a project.*

When the capital budget/forecast is developed, a project’s cost that is shown in the budget reflects the quality of information known at that time. For any project, it would reflect where the project is in its lifecycle: Initiation (Intake), Feasibility, Design, Construction/Commissioning, or Close-out stage.

It is recognized by the Project Management Profession that projects in the Initiation (Intake) phase can have a margin of error that can range from 50% to 200% of the actual completion cost. As a project matures through the design phase, the margin of error reduces to 5 to 15%.

The recommendation to use the design cost as the basis for reporting a project's exceedances aligns with the existing BWL policy of reporting an exceedance when a planned project's expected completion cost is in excess of 15% and \$200,000 of the **designed** cost.

Proposed Resolution
Capital Project Exceedance Approval

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

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

RESOLVED, that in the case of "planned" capital projects the total budget amount is the project's designed budget amount; and

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

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

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

This resolution supersedes Resolutions 2000-3-2, 2001-6-16 and 2015-07-05.

Staff comments:

In the existing Policy, a project's Total Budget Amount can be based on the initiation (Intake) phase of a project. This amount is usually based on historical or industry estimates of similar projects and does not capture issues that can significantly affect the cost of a project.

When the capital budget/forecast is developed, a project's cost that is shown in the budget reflects the quality of information know at that time. For any project, it would reflect where the project is in its lifecycle: Initiation (Intake), Feasibility, Design, Construction/Commissioning, or Close-out stage.

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The recommendation to use the design cost as the basis for reporting a project's exceedances aligns with the existing BWL policy of reporting an exceedance when a planned project's expected completion cost is in excess of 15% and \$200,000 of the designed cost.



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
September 8, 2020

Overview

- Status Report
- Other Items

Status Report

FY 2020 Audit Engagement in Progress:

1. Energy Risk Management

FY 2021 Audit Engagements (Beginning Stages):

1. MPPA and MISO Billings
2. IT - Cybersecurity Process
3. IT – Vulnerability Assessments
4. PCards

Note: A request for proposal (RFP) was sent out to several IT audit consultant vendors for bids for #2 and #3 above. Once received, the bids will be evaluated by the vendor selection committee, then the best vendor will be selected.

Other Items

1. Internal Audit Outreach With Other BWL Departments
2. Update on Ongoing Education and Certification of IA Staff