FINANCE COMMITTEE MEETING
AGENDA

September 19, 2017
5:30 p.m.—1201 S. Washington Ave.
Lansing, MI — REO Town Depot
Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of July 11, 2017……………………………………TAB 1

2. Baker Tilly External Audit Report……………………………………………………………….TAB 2
    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. Retiree Benefit Plan Audited Financial Statements
    f. Resolution- Acceptance of the 2017 Audited Financial Statements

3. July YTD Financial Summary…………………………………………………………………………TAB 3

4. FY 2018-2023 Financial Forecast Plan………………………………………………………TAB 4
    a. FY 2018-2023 Capital Forecast Resolution

5. Rate Strategy Recommendations FY 2018-2020…………………………………………..TAB 5
    a. FY 2018-2020 Rate Strategy Resolution

6. Internal Auditor Charter ………………………………………………………………………………TAB 6
    a. Resolution for Acceptance of Internal Auditor Charter

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
July 11, 2017

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, at 8:20 p.m. on Tuesday, July 11, 2017.

Finance Committee Chair Ken Ross called the meeting to order and requested a roll call.

Present: Commissioners Ken Ross, Dennis M. Louney, Anthony McCloud, and David Price. Also present: Commissioners Beth Graham, Tony Mullen, Tracy Thomas, and Sandra Zerkle, and Non-Voting Commissioners William Long, and Robert Nelson.

Absent: None.

The Corporate Secretary declared a quorum.

Public Comments

None.

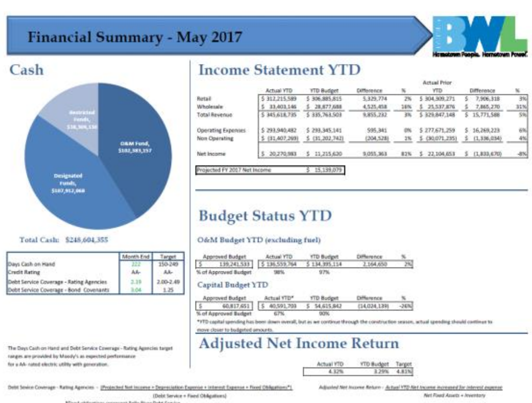
Approval of Minutes

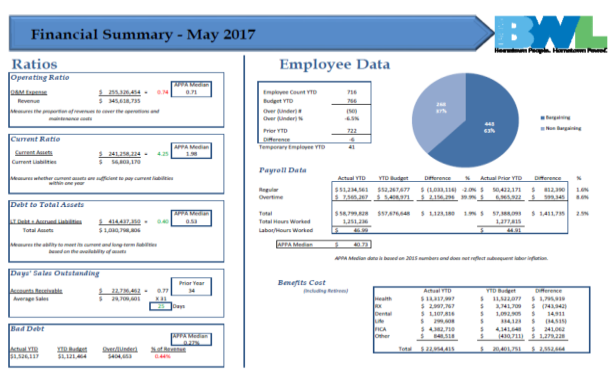
Motion by Commissioner Price, **Seconded** by Commissioner McCloud, to approve the Finance Committee meeting minutes of May 16, 2017.

Action: Motion Carried.

May YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa, presented the following:





CFO Heather Shawa presented the May 2017 Year-to-date Financial Summary which indicated that the total Cash is over $248M, Days cash on hand is $222M, and debt service coverage ratio is 2.19. The latter two are up from last month. The Year-to-date income statement as of May YTD shows revenues to budget are up 3%, comparative to this time last year at which they were up 5%. The projected fiscal-year-end net income is approximately $15 million and is pending any year end audit adjustments. Ms. Shawa indicated that the capital budget is predicting to be underspent but construction projects that were delayed are getting caught up now that construction season started in June. BWL's adjusted net income return indicates the actual net rate of return is ahead of budget and slightly under target.

Ms. Shawa also mentioned that three out of the five ratios are being met. Bad debt and uncollectible continue to be watched. Commissioner Nelson commented that if BWL had opted into Act 95, the Michigan Energy Assistance Program, the bad debt could be reduced as some customers have to choose between electricity and putting food on the table. Commissioner Mullen asked whether BWL had an outside debt collector and after what length of time the outside debt collector is contacted. Chair Ross requested CFO Shawa bring information to the next meeting for the response to Commissioner Mullen's question.

Ms. Shawa also reviewed the employee data and the employee headcount compared to budget and benefit cost. Although the data indicates being under budget, the temporary employee headcount is 41 and there are recruiting efforts to fill about 27 vacancies.

Revised Investment Policy Statements/Resolution

Heather Shawa introduced Scott Taylor, Finance Manager, who presented two revised investment policy plans, the Defined Benefit (DB) Plan which is the traditional pension plan, and the VEBA Plan which covers the investments associated with providing health care benefits. Asset Consulting Group was retained last March as the consultant for these plans. The consultants' feedback was that the statements were well constructed and consistent with the plan objectives. Overall the changes in both plans are consistent and have similar strategies. Refinement in asset allocation, clearly defining manager objectives, and evaluation of plan performance were the main changes targeted.

Motion by Commissioner Price, **Seconded** by Commissioner McCloud to forward the proposed Resolution for the Adoption of the Revised Investment Policy Statements to the full Board for consideration.

Action: Motion Carried.

Internal Audit Quarterly Management Response Report-Out

CFO Heather Shawa reviewed the Internal Audit Quarterly Management Response Report-Out and reported that the Management Responses are sent out quarterly. Internal Auditor Phil

Perkins and his team perform various internal audits throughout the year and provide recommendations or findings to the management, who are then responsible to submit corrective actions within 30 days of the final audit report to Mr. Perkins. This Report-Out is the tracking tool to monitor the recommendations or findings and the corrective actions submitted.

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
Open Issues:					
33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	Results provided as part of November 2016 stress test included: development of specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results. Based on cost/benefit analysis, the remaining reccommendations from the stress test will be incorporated into the new OMS solution, scheduled for implementation in 2018.
44	Billing	To address safety concerns associated with high consumption residential customers, management is discussing possible revisions to existing Rules and Regulations and coordination of public safety initiatives with other public agencies.	Nov 2016	Planning & Development	Applicable language has been incorporated into proposed changes to BWL Rules and Regulations. In addition, BWL is complying with the City of Lansing's Home Occupation Ordinance.
45	Performance Evaluation & Compensation	Internal Audit recommended additonal standardization of performance evaluation procedures.	Jan 2017	Human Resources	Further development of the BWL performance management process for non-bargaining employees is underway, including additional participation throughout the year and goals and objectives in line with the new BWL Strategic Plan. The SMART concept already in use will be expanded upon (i.e., employee performance goals are SMART, which stands for Specific, Measurable, Action-oriented, Realistic and Time bound). Estimated completion date is 7/1/18.
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Human Resources will coordinate an update of job descriptions, in collaboration with each area throughout the organization. This project will incorporate multiple phases, beginning with planning and identifying needed resources. Estimated project completion is 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	Decoupling of base and merit increases is already underway, including budgeting of the two separate categories of increases for fiscal 2018 and development of corresponding instructional information. Project completion is expected by 7/1/18.
48	Collections *NEW*	Internal Audit supports adding a requirement to check customer credit prior to opening a new account.	March 2017	Customer Service	A new tool will being implemented, by 8/1/17, to help ensure deposits are consistently and appropriately applied to new customers.
50	Follow-Up of Training & Development Audit *NEW*	Internal Audit noted the need to reemphasize use of LMS and continue with refresher training.	May 2017	Training & Development	Refresher training in LMS will be provided by 9/30/17 and use of LMS will continue to be reemphasized.
51	Follow-Up of Training & Development Audit *NEW*	Internal Audit recommended Training & Development coordinate with department trainers to better ensure training completions are entered into LMS, along with considering the eventual use of LMS as the primary source for Balanced Scorecard Reporting of training time.	May 2017	Training & Development	Workshops for departmental trainers, including an online procedure for entering training completions to LMS, will be developed and delivered by 9/30/17. The workshops will be followed by management's assessment of the accuracy and completeness of training documentation in LMS, concluding with a recommendation, by 3/31/18, regarding use of LMS data in Balanced Scorecard reporting.
52	COBIT Compliance *NEW*	Internal Audit noted that actions should continue on as expedited a schedule as possible to reach full compliance with the adopted IT governance framework.	June 2017	Information Technology	Multiple actions and completion dates are involved, including higher-risk, as-yet-incomplete items 1.6 (an implemention plan for the IT Strategic Plan, expected by 7/1/17); 8.2 (Quality Management System) and 9.3 (Risk Management Plan), by 12/31/17; 3.2, 4.5, 6.2, and 8.1 (all to be provided via the new governance framework), by 12/31/18; and 4.1 (replace Cobit governance framework with CMMI), by 6/30/19.

STATUS OF MANAGEMENT RESPONSES TO AUDITS
JUNE 2017

In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	Aug 2014	General Accounting	A General Accounting Procedure Manual was finalized in May 2017.
27	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	IT has encrypted the laptops used by field personnel and established user guidelines. Guidelines instruct BWL users to encrypt sensitive data on their own mobile devices. Software with remote management capabilities has been procured, installed, and deployed.
29	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Software with remote management capabilities has been procured, installed, and deployed.
37	Hiring Process	Internal Audit has requested that an all-encompassing hiring policy be documented.	May 2016	Human Resources	Human Resources developed an operational policy which addresses BWL hiring standards in their entirety.
49	Collections *NEW*	Internal Audit suggests continued monitoring of the appropriateness of the dollar threshold for Final Notice to customers prior to an unpaid account becoming eligible for shut-off of services.	March 2017	Customer Service	Management continues to monitor the appropriateness of the dollar threshold for Final Notice.
E-2	IT Risk Assessment by External Auditors	It was noted that network and financial application password settings need strengthening, including establishing requirements that passwords be changed every 90 days, be a minimum length of 8 characters, and include special characters. In addition, 8 prior passwords should be remembered and user accounts should be locked after 3-5 failed login attempts.	Sept 2016	Information Technology	Enhancement of network, mainframe, and application password settings has been completed.
E-3	IT Risk Assessment by External Auditors	Management letter indicated that user account access should be reviewed annually by management for appropriateness, following the least privilege principle, with documentation of reviews retained.	Sept 2016	Information Technology	IT's review of user access to CIS and SAP with management has been completed.
E-5	IT Risk Assessment by External Auditors	Baker-Tilly noted that the Windows 2003 operating system on which the DP250 database runs needs upgrading.	Sept 2016	Information Technology	The DP250 database is now running on an updated operating system.

Internal Auditor Status Report

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

- External 5-Year Independent Review Results
- FY 2017 Audit Plan Progress Report
- Proposed FY 2018 Audit Plan
- Other Items

External 5-Year Independent Review

- Overall – Internal Audit at BWL was assessed as "generally conforming" to the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
- 5 non-binding recommendations for enhancements:

  1. Change weightings on individual risk assessments to better quantify risk ratings for each activity in the audit universe. Internal Audit response: Concur and adopted the recommendation. Completed for FY 2018 risk assessment and will use the updated model going forward.

2. Include a separate “risk” category in audit reports for all issues presented. Internal Audit response: Partially concur and will adopt the recommendation as needed (an effect or impact statement is now included with each issue).

3. The CEO Hotline should be an auditable area. Internal Audit response: Concur. Internal Audit will work with management to gain access to hotline complaints that involve potentially fraudulent or otherwise illegal or unethical behavior, with the objective being to address control or procedural improvements to prevent similar incidents in the future. Estimate completion of a working approach by July 31, 2017.

4. Audit planning should include consulting during System Development Life Cycle for major system development and acquisition. Internal Audit Response: Concur. Internal Audit is working with management to provide both informal and formal advice and consulting on current BWL major projects such as the ADMS, AMI, new plant construction, and replacement CI system, as well as any future such projects.

5. Risk assessment discussions between the Internal Auditor and the Finance Committee should be documented so that the approval of the annual audit plan and accompanying resources reflect the results of such discussions. Internal Audit Response: Concur. The Internal Auditor will include in his recommended audit plan why the number and type of audits and resources needed are optimal based on assessed risks, and this will be documented in Finance Committee meeting minutes accordingly.

<u>FY 2017 Audit Plan Progress Report</u>

<u>Engagements Completed:</u>
1. Follow-up Training & Development Audit
2. Collections Audit
3. COBIT Compliance Audit
4. New Service Order Management – Water Audit
5. Performance Evaluation/Compensation/Merit Pay Audit
6. Surprise Cash Counts (2)
7. Employee Time Reporting Reviews (2)
8. Vehicle Time Reporting Reviews (1)

<u>Engagements in Progress:</u>
1. Payroll Management Audit (estimated 75% complete)
2. Identity and Access Management Audit (estimated 50% complete)
3. Follow-up Hiring Process Audit (estimated 67% complete)

<u>Basis for plan:</u>
1. Meetings with Executives and Staff to discuss risks and potential audit topics.
2. Risk assessments for each of 100-plus auditable activities at BWL.
3. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
4. Identified at least 19 potential audits to perform in FY 2018 and beyond.

Proposed FY 2017 Audit Plan – Background

Top 10 audits for FY 2017 (as discussed and agreed with senior management):

1. Cash Receipts
2. IT – Help/Service Desk
3. Succession Planning
4. Customer Payment Arrangements & Third Party Payments
5. Contract Authorization/Approval Process
6. Physical Access Security Management
7. Water Production Plant Audit
8. Power Purchase Agreements
9. Accounts Payable Below the line will be deferred
10.Cash Management/Treasury beyond FY 2018.
(Audits below the line will be deferred beyond FY 2018)

Proposed FY 2018 Audit Plan

Planned Audits:	Estimated Hours
Cash Receipts	300
IT Help/Service Desk Management	300
Succession Planning	300
Customer Payment Arrangements	300
Contract Authorization/Approval Process	300
Physical Access Security Management	300
Water Production Plant Reporting	300
Other Engagements:	
Surprise Cash Counts (2)	50
Time Reporting Reviews (2)	150
Consulting – Project Development/Acquisition	200
Total Estimated Hours	2,500

Available Resource

Resource	Position	Available Hours
Phil Perkins	Director of Internal Audit	1,500
C. L. Moore & Associates	Augmented IA Services	800
Internal or External IT Audit Assistance	IT Audit Services	200
Total Hours		2,500

Motion by Commissioner Price, **Seconded** by Commissioner McCloud to approve the FY 2018 Audit Plan.

Action: Motion Carried.

Internal Auditor Perkins requested that the Committee approve the Internal Auditor's Charter as is, as there were no changes to the document. In response to Mr. Perkins request Finance Chair Ross suggested that the Charter be provided at the next Finance Committee meeting for review.

Other

A request was made by Commissioner Long to have management provide a rate hearing schedule/timeline review for 2017-2018. CFO Shawa provided an overview of the rate hearing schedule. The tentative schedule has the Finance Committee Meeting in September 2017 as the kickoff. This meeting is currently scheduled for September 12, 2017 but there is discussion to move it to September 19, 2017. The Finance Committee is hoping to move the rate hearing schedule to the full Board at the Board Meeting scheduled September 26, 2017. The rate hearing schedule has to be filed with the Lansing City Clerk by October 16, 2017 and publication is required by November 15, 2017. A public hearing is tentatively scheduled for November 30, 2017. Approval of the rate strategy would be at the January 23, 2018 Board Meeting and the rate implementation would be in effect February 1, 2018.

Ms. Shawa reported that rate projections are included in the long-term forecast. Cost of service has been reviewed, plus cost and rate structures, for a multi-year rate strategy. Any additional items that the Commissioners would like considered, besides those noted, are to be submitted to the Finance Committee before July 23, 2017 for analysis and recommendations.

Adjourn

Chair Ken Ross adjourned the meeting at 9:14 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

BOARD OF WATER AND LIGHT – CITY OF LANSING, MICHIGAN

Lansing, Michigan

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended June 30, 2017

BOARD OF WATER AND LIGHT – CITY OF LANSING, MICHIGAN

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

BAKER TILLY

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

In planning and performing our audit of the financial statements of the Board of Water and Light – City of Lansing, Michigan and Pension Trust funds (collectively referred to as the BWL) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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.

This communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 13, 2017

OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

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.

   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.

c. 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.

d. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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 Board of Commissioners 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. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

e. Have you had any significant communications with regulators or grantor agencies?

f. 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 BWL concerning:

a. The BWL'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 May or June. 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 3-4 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.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

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

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the 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, 2017, and have issued our report thereon dated September 13, 2017. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the board of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated September 6, 2016.

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

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT 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 will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the BWL are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Retiree Benefit Plan and Trust adopted Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans* in 2017. We noted no transactions entered into by the BWL during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

- Management's estimates of the other post-employment benefit (OPEB) cost and employee pension benefits are based on actuarial reports completed by Nyhart Actuary & Employee Benefits. We evaluated the key factors and assumptions used by the actuaries in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis for the collectivity of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of unbilled revenues is based on units of consumption used by customers but not yet billed through the normal billing process. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of self-insurance claims incurred but not reported (IBNR) is based on historical claims and an estimated lag provided by third-party specialists. We evaluated the key factors and assumptions used to develop this estimate in determining it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the environmental liabilities is based on cash flow projections of estimated costs to remediate the sites. We evaluated the key factors and assumptions used to develop the liability in determining it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension asset and related deferrals are based on actuarial reports completed by Nyhart Actuary & Employee Benefits. We evaluated the key factors and assumptions used by the actuaries in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the volume of coal in inventory is based on a volumetric survey performed by Mikon Corporation. We evaluated the key factors and assumptions used by Mikon in determining that they are reasonable in relation to the financial statements taken as a whole.

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

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES (cont.)

Financial Statement Disclosures

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, 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.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

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

Relating to our audit of the financial statements of the BWL for the year ended June 30, 2017, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the BWL in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the BWL other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- Financial statement preparation assistance

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

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

OTHER AUDIT FINDINGS OR ISSUES

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 additional information accompanying the financial statements, 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 additional information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

RESTRICTION ON USE

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

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 13, 2017

MANAGEMENT REPRESENTATIONS

LANSING BWL
Hometown People. Hometown Power.

September 13, 2017

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, 2017 and 2016 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. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and 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

    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, OPEB liability and net pension assets 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.

The following representations relate specifically to the employee benefit plans:

40. We have properly recorded or disclosed in the financial statements any amendments to the plan instruments, if any.

41. 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). The plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe the plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, they believe the plan was qualified and the related trust was tax-exempt as of the financial statement date.

42. The defined contribution plan obtained its latest determination letter on March 31, 2014, in which the Internal Revenue Service stated that the plan, as then designed, was in compliance with the appropriate requirements of the IRC. The plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe the plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, they believe the plan was qualified and the related trust was tax-exempt as of the financial statement date.

43. The retiree benefit plan does not have a determination letter, in which the Internal Revenue Service stated that the plan, as then designed, was in compliance with the appropriate requirements of the IRC.

44. We have no intentions to terminate any of the plans.

45. 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.

46. 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.

47. 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.

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b. No other changes occurred in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.

48. 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.

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

Sincerely,

Lansing Board of Water and Light

Signed: ______________________
Heather Shawa, CFO

Signed: ______________________
Scott Taylor, CPA, Finance Manager

Signed: ______________________
Lori Pung, General Accounting Manager

Board of Water and Light - City of Lansing, Michigan

Financial Report

with Additional Information

As of and for the Years Ended June 30, 2017 and 2016

Contents

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 and its fiduciary funds, as of and for the years ended June 30, 2017 and 2016, 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lansing Board of Water and Light as of June 30, 2017 and 2016, 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 13, 2017

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the “BWL”). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for the years ended June 30, 2017 and 2016.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 65 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 its landfill gas renewable energy purchase agreement with Granger Electric of Lansing. Additional load was supplemented through participation in MISO, BWL’s regional grid. The BWL supports solar production through its existing array with a capacity of 152 kW, a planned 24 MW solar array, and Net Metering customers who receive credit for their excess solar generation. The BWL’s renewable portfolio also includes wind energy and hydro-electric power. The BWL has adopted a plan which includes 30% clean energy by 2020, and 40% by 2030.

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 56,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving over 170 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 the water, electric, steam, and chilled water systems. Gross capital expenditures were $51.9 and $51.3 million in fiscal years 2017 and 2016, respectively.

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

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

Condensed Financial Information (dollars in millions)

	As of June 30			% Change
	2017	2016	2015	2016 to 2017
Assets				
Utility plant	$ 680.4	$ 690.7	$ 715.0	% (1.5)
Other assets	342.6	342.1	345.1	0.1
Total assets	1,023.0	1,032.8	1,060.1	(0.9)
Deferred Outflow of Resources	2.1	3.8	1.0	(44.7)
Liabilities				
Long-term liabilities	348.0	357.4	368.6	(2.6)
Other liabilities	56.6	57.1	65.2	(0.9)
Total liabilities	404.6	414.5	433.8	(2.4)
Deferred Inflow of Resources	20.1	26.0	32.1	(22.7)
Net Position				
Net investment in capital assets	369.5	367.1	380.7	0.7
Restricted for debt service	38.7	38.3	43.5	1.0
Unrestricted	192.2	190.7	171.0	0.8
Net position	**$ 600.4**	**$ 596.1**	**$ 595.2**	**% 0.7**

In 2017, the BWL committed to the closure of the Erickson Power Station by 2025. The decision was made as part of a settlement agreement reached with the Sierra Club and in support of the BWL's strategic plan. In acknowledgement of this decision, the BWL recorded an impairment of $9.3 million.

Depreciation and impairment exceeded the amount of capital expenditures in fiscal year 2017, thereby decreasing utility plant by $10.3 million.

Condensed Financial Information (dollars in millions) (Continued)

	For the Year Ended June 30			% Change
	2017	2016	2015	2016 to 2017
Result of Operations				
Operating Revenue	$ 371.4	$ 360.9	$ 353.5	% 2.9
Operating Expense	344.4	327.1	329.8	5.3
Nonoperating expense - Net	-22.7	-32.9	-11.1	31.0
Changes in Net Position	**$ 4.3**	**$ 0.9**	**$ 12.6**	**% 377.8**

Operating revenue increased by $10.5 million mainly due to increased demand.

Nonoperating expense (net) was reduced by $9.3 million from fiscal year 2016. In 2016 the BWL impaired Eckert Power Station and wrote off expenses related to the Customer Care Initiative Project, causing an unusually large increase in nonoperating expense. The 2017 impairment of the Erickson Power Station and the balance of the Central Utilities Complex represent a $9.3 million reduction in write offs compared with fiscal year 2016.

Budget – The BWL Commissioners approved a $278.3 million operating expense budget (excluding depreciation and impairment) for fiscal year 2017. Actual expenses (excluding depreciation and impairment) were $279.9 million, within 1 percent of budget. The net capital improvement budget was $60.8 million for fiscal year 2017, and actual net capital expenditures were $49.6 million.

Financing Activities – During fiscal year 2017, Revenue Refunding Bonds Series 2017A were issued to refund a portion of the Series 2008A Bonds, resulting in reduced aggregate debt service of the BWL and overall present value savings of more than $4.0 million. In fiscal year 2016, there were no significant financing activities.

Statements of Net Position

	As of June 30	
	2017	2016
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 2 and 3)	$ 47,380,541	$ 46,586,326
Cash and cash equivalents (Notes 1 and 2)	57,522,888	53,637,717
Investments (Notes 1 and 2)	108,059,622	107,921,202
Accounts receivable - Net (Note 1)	24,571,987	23,168,659
Estimated unbilled accounts receivable (Note 1)	17,334,540	19,526,475
Inventories (Note 1)	25,421,903	25,067,737
Other	4,400,379	3,997,490
Total current assets	284,691,860	279,905,606
Other Assets		
Recoverable energy asset (Note 6)	-	2,302,845
Recoverable environmental remediation (Note 6)	6,321,595	11,483,569
Special deposit (Note 1)	5,690,000	8,535,000
Net pension asset (Note 8)	9,029,155	4,263,990
Other (Note 1)	12,495,357	10,265,098
Total other assets	33,536,107	36,850,502
Noncurrent Restricted Assets (Investments) (Notes 2 and 3)	24,384,188	25,319,385
Utility Plant (Notes 1 and 4)		
Water	309,243,104	302,165,777
Electric	687,921,365	774,429,214
Steam	71,614,976	68,557,331
Chilled water	34,023,916	33,998,140
Common facilities	92,329,375	88,752,432
Central Utilities Complex	-	76,079,000
Total	1,195,132,736	1,343,981,894
Less accumulated depreciation	534,316,387	668,868,675
Net	660,816,349	675,113,219
Construction in progress (Note 9)	19,591,830	15,583,201
Total utility plant	680,408,179	690,696,420
Total assets	1,023,020,334	1,032,771,913
Deferred Outflows of Resources -		
Bond refunding loss being amortized	2,116,754	835,838
Net pension deferred outflows (Note 8)	-	2,930,218
Total deferred outflows of resources	2,116,754	3,766,056

See Notes to Financial Statements.

Statements of Net Position (Continued)

	As of June 30	
	2017	2016
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 29,923,625	$ 28,679,951
Current portion of long-term debt (Note 5)	9,614,677	11,642,389
Accrued payroll and related taxes	2,182,199	1,873,549
Customer deposits	2,072,804	2,304,426
Accrued compensated absences (Note 1)	4,874,356	4,310,921
Accrued interest	227,323	-
Accrued interest (payable from restricted assets)	7,733,536	8,284,626
Total current liabilities	56,628,520	57,095,862
Compensated Absences - Less current portion (Note 1)	7,305,531	7,112,200
Other Long-term Liabilities		
Workers' compensation	2,200,000	2,200,000
Environmental remediation liability (Note 9)	7,608,844	7,853,780
Other	2,073,349	2,116,412
Total other long-term liabilities	11,882,193	12,170,192
Long-term Debt - Less current portion (Note 5)	328,752,913	338,105,373
Total liabilities	404,569,157	414,483,627
Deferred Inflows of Resources		
Recoverable revenue of Central Utilities Complex (Note 6)	-	5,071,934
Revenue intended to cover future costs (Note 6)	18,879,619	20,891,938
Recoverable energy asset (Note 6)	1,237,497	-
Net pension deferred inflows (Note 8)	31,205	-
Total deferred inflows of resources	20,148,321	25,963,872
Net Position		
Net investment in capital assets	369,476,728	367,103,881
Restricted for debt service (Note 3)	38,711,808	38,301,700
Unrestricted	192,231,074	190,684,889
Total net position	**$ 600,419,610**	**$ 596,090,470**

See Notes to Financial Statements.

Statements of Revenues, Expenses, and Changes in Net Position

	For the Year Ended June 30	
	2017	2016
Operating Revenues (Note 1)		
Water	$ 40,738,054	$ 38,730,602
Electric	312,925,177	303,245,766
Steam	11,404,174	12,683,463
Chilled water	6,362,308	6,275,583
Total operating revenues	371,429,713	360,935,414
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	161,787,983	159,118,150
Maintenance	18,725,293	19,839,991
Transmission and distribution:		
Operating expenses	10,139,726	7,404,258
Maintenance	15,839,208	14,189,340
Administrative and general	73,449,089	64,007,040
Return on equity (Note 7)	21,862,457	21,033,531
Depreciation (Note 1)	42,598,423	41,541,561
Total operating expenses	344,402,179	327,133,871
Operating Income	27,027,534	33,801,543
Nonoperating Income (Expenses)		
Investment income	914,829	1,913,873
Other (expense) income	478,719	(4,588,160)
Impairment on Power Stations (Note 4)	(9,337,129)	(15,763,520)
System capacity fee	-	3,351,392
Bonded debt interest expense	(14,703,367)	(14,861,300)
Amortization - Central Utilities Complex	-	(2,902,715)
Other interest expense	(51,446)	(51,049)
Total nonoperating expenses - Net	(22,698,394)	(32,901,479)
Net Income (Changes in Net Position)	4,329,140	900,064
Net Position - Beginning of year	596,090,470	595,190,406
Net Position - End of year	**$ 600,419,610**	**$ 596,090,470**

Statements of Cash Flows

	For the Year Ended June 30	
	2017	2016
Cash Flows from Operating Activities		
Cash from customers:		
Water	$ 40,969,480	$ 38,465,045
Electric	318,268,867	302,838,331
Steam	12,134,864	12,824,305
Chilled water	6,311,620	6,757,204
Total cash from customers	377,684,831	360,884,885
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(135,660,367)	(131,855,507)
Other suppliers	(79,003,447)	(75,423,113)
Total cash paid to suppliers	(214,663,814)	(207,278,620)
Cash paid to employees	(61,976,765)	(57,655,263)
Return on equity (Note 7)	(21,862,457)	(21,033,531)
Cash from customer deposits	(231,622)	(373,719)
Interest on customer deposits	(51,446)	(51,049)
Net cash provided by operating activities	78,898,727	74,492,703
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	2,201,662	3,789,161
Planned, bonded, and annual construction	(50,209,767)	(44,161,432)
Principal payments on debt	(11,024,805)	(13,418,460)
System capacity fees	-	3,351,392
Interest on debt	(16,846,591)	(16,979,468)
Net cash used in capital and related financing activities	(75,879,501)	(67,418,807)
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	62,633,076	76,742,427
Interest received	863,383	1,862,826
Purchase of investments	(61,836,299)	(94,133,423)
Net cash provided by investing activities	1,660,160	(15,528,170)
Net Increase in Cash and Cash Equivalents	4,679,386	(8,454,274)
Cash and Cash Equivalents - Beginning of year	100,224,043	108,678,317
Cash and Cash Equivalents - End of year	**$ 104,903,429**	**$ 100,224,043**

See Notes to Financial Statements.

Statements of Cash Flows (Continued)

	For the Year Ended June 30	
	2017	2016
Balance Sheet Classifications		
Restricted cash and cash equivalents	$ 47,380,541	$ 46,586,326
Cash and cash equivalents	57,522,888	53,637,717
Cash and Cash Equivalents - End of year	**$ 104,903,429**	**$ 100,224,043**

Reconciliation of Operating Income to Net Cash from Operating Activities	For the Year Ended June 30	
	2017	2016
Operating income	$ 27,027,534	$ 33,801,543
Adjustments to reconcile operating income to net cash from operating activities:		
Other reimbursements	970,484	1,535,783
Depreciation	42,598,423	41,541,561
Sewerage collection fees	988,652	929,243
Interest on customer deposits	(51,446)	(51,049)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	(1,403,328)	(1,154,054)
Unbilled accounts receivable (Note 1)	2,191,935	(1,245,698)
Inventories	(354,167)	793,007
Special deposit	2,845,000	2,845,000
Net pension asset	(4,765,165)	4,020,240
Other	4,831,671	6,687,142
(Decrease) increase in liabilities and deferred outflows/inflows of resources:		
Accounts payable and other accrued expenses	1,287,691	(5,927,797)
Customer deposits	(231,622)	(373,719)
Net pension asset deferrals	2,961,423	(5,131,625)
Other	1,642	(3,776,874)
Total adjustments	51,871,193	40,691,160
Net cash provided by operating activities	**$ 78,898,727**	**$ 74,492,703**

Noncash capital and financing activities		
Decrease in environmental liability and related regulatory asset	$ -	$ 2,078,264
Impairment on Power Station	9,337,129	15,763,520
Write off of discontinued project	-	5,773,139
Refunding bonds issued	33,591,885	-

Pension Trust Funds - Statements of Net Position

	As of June 30	
	2017	2016
Assets		
Receivable - investment interest receivable	$ 578,207	$ 530,155
Trade receivable - due from broker	134,461	-
Investments at fair value:		
Cash and money market trust fund	4,016,370	14,244,958
U.S. government obligations	38,104,494	29,023,448
Fixed income securities	45,862,887	39,216,076
Mutual funds	220,413,178	154,854,298
Stable value	35,270,975	34,193,741
Partnership	1,117,790	1,101,086
Common stock	74,379,228	114,508,909
Self-directed brokerage account	1,826,494	1,551,450
Participant notes receivable	3,899,938	3,749,371
Total investments	424,891,354	392,443,337
Liabilities		
Trade payable - due to broker	105,260	-
Net Position - Held in trust for pension and other employee benefits	**$ 425,498,762**	**$ 392,973,492**

See Notes to Financial Statements.

Pension Trust Funds - Statements of Changes in Net Position

	For the Year Ended June 30	
	2017	2016
Increases		
Investment income (loss):		
Net appreciation (depreciation)		
in fair value of investments	$ 35,624,583	$ (11,813,954)
Interest and dividend income	10,178,156	11,303,751
Net investment income (loss)	45,802,739	(510,203)
Employer contributions	15,626,391	15,084,965
Participant rollover contributions	1,051,032	2,026,588
Interest from participant notes receivable	156,466	150,624
Total increases	62,636,628	16,751,974
Decreases		
Retiree benefits paid	28,924,101	25,264,964
Loan defaults	72,325	186,801
Participants' note and administrative fees	1,114,932	1,309,905
Total decreases	30,111,358	26,761,670
Change in Net Position Held in Trust	32,525,270	(10,009,696)
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	392,973,492	402,983,188
End of year	**$ 425,498,762**	**$ 392,973,492**

See Notes to Financial Statements.

Note 1 – Significant Accounting Policies

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

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

Fund Accounting – The BWL accounts for its activities in two different fund types. In order to demonstrate accountability for how 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 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.

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 June 2015, the GASB issued statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This standard was implemented effective July 1, 2016 with the VEBA financial statement.

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.

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.

Note 1 – Significant Accounting Policies (Continued)

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.

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	
	2017	2016
Designated purpose:		
Coal inventory fluctuation	$ 4,684,100	$ 4,702,092
Litigation, environmental, and uninsured losses	18,936,117	19,009,147
Future water facilities	3,816,307	3,831,125
Subtotal	27,436,524	27,542,364
Special purpose - Future construction	80,623,098	80,378,838
Total	$ 108,059,622	$ 107,921,202

Note 1 – Significant Accounting Policies (Continued)

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 2017 and 2016 are as follows:

	2017	2016
Customer receivables	$ 18,680,026	$ 19,209,535
Sewerage collections	2,282,599	2,295,881
Miscellaneous	5,109,362	3,163,243
Less allowance for doubtful accounts	(1,500,000)	(1,500,000)
Net	$ 24,571,987	$ 23,168,659

Special Deposit – The BWL contracted with Consumer's Energy to install a new gas pipeline in 2011 and at that time funded construction of this pipeline and incurred $15,900,000 in costs. The BWL will subsequently be reimbursed for all but $1,675,000 of those costs provided minimum consumption requirements are met over the subsequent five-year period beginning in 2015. Based on current projections, the actual consumption is expected to exceed the minimum requirements. The long-term other asset recorded was $5,690,000 and $8,535,000 in 2017 and 2016, respectively.

Note 1 – Significant Accounting Policies (Continued)

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

	2017	2016
Coal	$ 10,692,936	$ 10,979,780
Gas	631,759	706,758
Materials and supplies	14,097,208	13,381,199
Total	$ 25,421,903	$ 25,067,737

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. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed. Capital assets are generally defined as assets with an initial, individual cost of more than $2,000 and an estimated life in excess of one year.

Depreciation – Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with GASB 62 paragraphs 476-500. The resulting provisions for depreciation in 2017 and 2016, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

	Life (Years)	Average Rate (Percent) 2017	Average Rate (Percent) 2016
Classification of utility plant			
Water	4-100	1.8	1.8
Electric	4-50	4.0	3.6
Steam	5-50	3.4	3.5
Chilled water	5-50	3.5	3.6
Common facilities	4-50	4.6	4.8
Central Utilities Complex	15	5.6	3.8

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

Note 1 – Significant Accounting Policies (Continued)

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 $12,179,887 and $11,423,121 as of June 30, 2017 and 2016, 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.

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

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

Note 1 – Significant Accounting Policies (Continued)

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.

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 the net OPEB asset described in Note 8 and 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.

Note 1 – Significant Accounting Policies (Continued)

Unbilled Accounts Receivable and Revenue – Unbilled accounts receivable at June 30, 2017 and 2016 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.

Interutility Transactions – The water, electric, steam, and chilled water operations of the BWL bill each other for services provided and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated $8,693,989 and $8,496,848 in 2017 and 2016, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

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.

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.

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

<u>BWL's Cash and Investments (exclusive of fiduciary funds)</u>

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, 2017 and 2016, the BWL had $1,650,050 and $1,605,366, 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.

At June 30, 2017, 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	$ 134,304,527	Counterparty

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

At June 30, 2016, 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	$ 92,921,202	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments to a maximum weighted average life of five years unless matched to a specific cash flow.

At June 30, 2017, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1 year	1-5 years	6-10 years
Pooled investment funds	$ 41,448,433	$41,448,433	$ -	$ -
U.S. treasury bonds	91,325,108	16,239,430	75,085,678	-
U.S. agency bonds/notes	44,379,571	17,462,537	25,794,936	1,122,098
Commercial paper	17,854,457	17,854,457	-	-
Supra national agency bonds	1,974,548	-	1,974,548	-
Mutual funds	3,155,031	3,155,031	-	-
Total	$ 200,137,148	$96,159,888	$ 102,855,162	$ 1,122,098

At June 30, 2016, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1 year	1-5 years	6-10 years
Pooled investment funds	$ 47,145,988	$47,145,988	$ -	$ -
U.S. treasury bonds	38,056,849	1,743,554	36,313,295	-
U.S. agency bonds/notes	45,283,538	7,822,012	36,381,417	1,080,109
Commercial paper	7,447,318	7,447,318	-	-
Supra national agency bonds	2,008,658	501,352	1,507,306	-
Mutual funds	124,840	124,840	-	-
Total	$ 140,067,191	$64,785,064	$ 74,202,018	$ 1,080,109

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

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

As of June 30, 2017, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	$41,448,433	AAA/AAAM	S&P
U.S. treasury bonds	91,325,108	AA+	S&P
U.S. agency bonds/notes	44,379,571	AA+	S&P
Commercial paper	17,854,457	A1	S&P
Supra national agency bonds	1,974,548	AAA	S&P
Mutual funds	3,155,031	AAAM	S&P

As of June 30, 2016, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	$47,145,988	AAA	S&P
U.S. treasury bonds	38,056,849	AA+	S&P
U.S. agency bonds/notes	45,283,538	AA+	S&P
Commercial paper	7,447,318	A1/A1+	S&P
Supra national agency bonds	2,008,658	AAA	S&P
Mutual funds	124,840	AAAM	S&P

Concentration of Credit Risk – As of June 30, 2017 and 2016 no more than 5 percent of the BWL's investments are invested in any one issuer or commercial paper or bonds/notes not guaranteed by the U.S. government.

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.

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

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

	June 30, 2017			
Investment	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	$ -	$ 91,325,108	$ -	$ 91,325,108
Supra National Agency Bonds	-	1,974,548	-	1,974,548
Federal Agency Mortgage-Backed Security	-	877,870	-	877,870
Federal Agency Collateralized Mortgage Obligation	-	1,589,459	-	1,589,459
Federal Agency Bond/Note	-	41,912,242	-	41,912,242
Commercial Paper	-	17,854,457	-	17,854,457
Mutual Funds	-	3,155,031	-	3,155,031
Total investments at fair value level	$ -	$158,688,715	$ -	$158,688,715

	June 30, 2016			
Investment	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	$ -	$38,056,849	$ -	$38,056,849
Supra National Agency Bonds	-	2,008,659	-	2,008,659
Federal Agency Mortgage-Backed Security	-	1,080,107	-	1,080,107
Federal Agency Collateralized Mortgage Obligation	-	1,542,108	-	1,542,108
Federal Agency Bond/Note	-	42,661,321	-	42,661,321
Commercial Paper	-	7,447,318	-	7,447,318
Mutual Funds	-	124,840	-	124,840
Total investments at fair value level	$ -	$92,921,202	$	$92,921,202

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

Fiduciary Fund Investments

Interest Rate Risk – Pension Trust Funds

At June 30, 2017, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	$ 38,104,494	13.64
Money market trust funds	4,016,366	Less than 1 year
Fixed income securities	45,862,887	13.19

At June 30, 2016, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	$ 29,023,448	13.38
Money market trust funds	13,442,797	Less than 1 year
Fixed income securities	39,216,076	13.46

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

Credit Risk – Pension Trust Funds

As of June 30, 2017, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 136,451,476	Not rated	Not rated
U.S. government or agency bond	38,104,494	Not rated	Not rated
Stable value	35,270,975	AA	S&P
Fixed income securities	2,907,825	AAA	S&P
Fixed income securities	16,843,409	AA+	S&P
Fixed income securities	1,530,029	AA	S&P
Fixed income securities	1,609,659	AA-	S&P
Fixed income securities	971,866	A+	S&P
Fixed income securities	5,118,520	A	S&P
Fixed income securities	3,700,024	A-	S&P
Fixed income securities	7,879,776	BBB+	S&P
Fixed income securities	3,494,473	BBB	S&P
Fixed income securities	1,704,316	BBB-	S&P
Fixed income securities	8,170	BB+	S&P
Fixed income securities	94,820	CCC	S&P
Money market trust funds	4,016,366	Not rated	Not rated

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

As of June 30, 2016, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 124,001,268	Not rated	Not rated
U.S. government or agency bond	7,565,160	Not rated	Not rated
Stable value	34,193,741	AA	S&P
Fixed income securities	1,885,055	AAA	S&P
Fixed income securities	14,401,372	AA+	S&P
Fixed income securities	710,620	AA	S&P
Fixed income securities	523,627	AA–	S&P
Fixed income securities	1,313,047	A+	S&P
Fixed income securities	4,246,010	A	S&P
Fixed income securities	3,606,010	A–	S&P
Fixed income securities	7,510,323	BBB+	S&P
Fixed income securities	3,368,004	BBB	S&P
Fixed income securities	1,426,684	BBB–	S&P
Fixed income securities	8,185	BB+	S&P
Fixed income securities	56,350	BB	S&P
Fixed income securities	54,445	BB–	S&P
Fixed income securities	106,344	CCC	S&P
Money market trust funds	13,442,797	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.

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, 2017 and 2016:

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.

Partnership: Valued using either NAV, valuations provided by management reflecting the partnership's share of capital account balance, or the income and market approach.

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.

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.

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, 2017 and 2016:

	June 30, 2017			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ 4	$ 4,016,366	$ –	$ 4,016,370
U.S. government obligations	–	38,104,494	–	38,104,494
Fixed income securities	–	45,862,887	–	45,862,887
Mutual funds	136,451,476	75,470,692	–	211,922,168
Partnership	–	–	1,117,790	1,117,790
Common stocks	74,379,228	–	–	74,379,228
Self-directed brokerage account	1,826,494	–	–	1,826,494
Total investments by fair value level	$ 212,657,202	$ 163,454,439	$ 1,117,790	377,229,431
Investments measured at the net asset value (NAV)				
Stable value				35,270,975
Guaranteed lifetime income				8,491,010
Total investments measured at fair value				$ 420,991,416

	June 30, 2016			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ 798,902	$ 13,446,056	$ –	$ 14,244,958
U.S. government obligations	–	29,023,448	–	29,023,448
Fixed income securities	–	39,216,076	–	39,216,076
Mutual funds	124,001,268	23,117,545	–	147,118,813
Partnership	–	–	1,101,086	1,101,086
Common stocks	114,508,909	–	–	114,508,909
Self-directed brokerage account	1,551,450	–	–	1,551,450
Total investments by fair value level	$ 240,860,529	$ 104,803,125	$ 1,101,086	346,764,740
Investments measured at the net asset value (NAV)				
Stable value				34,193,741
Guaranteed lifetime income				7,735,485
Total investments measured at fair value				$ 388,693,966

Note 3 – Restricted Assets

Restricted assets are required under the 2008A, 2011A, 2012A, 2013A, and 2017A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, commercial paper, and United States government securities, are segregated into the following funds:

	Required at June 30, 2017	Carrying Value 2017	Carrying Value 2016
Current			
Operations and Maintenance Fund	$ 31,436,985	$ 88,852,839	$ 80,922,920
Bond and Interest Redemption Fund	15,943,556	16,050,590	19,301,123
Total current	47,380,541	104,903,429	100,224,043
Noncurrent			
Bond Reserve Fund	24,044,200	24,384,188	25,319,385
Total noncurrent	24,044,200	24,384,188	25,319,385
Total	$ 71,424,741	$ 129,287,617	$ 125,543,428

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the year ended June 30, 2017 and 2016. 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.

Note 3 – Restricted Assets (Continued)

- **Bond and Interest Redemption Fund** – Restricted for payment of the current portion of bond principal and interest on the 2008A, 2009A, 2011A, 2012A, 2013A, and 2017A Revenue Bonds.

- **Bond Reserve Fund** – Shall include sufficient funds to cover the maximum annual principal and interest requirements of the 2008A, 2011A, 2012A, 2013A, and 2017A Revenue Bonds. The Nonarbitrage and Tax Compliance Certification stipulates that the amount in the fund shall be valued at amortized cost to meet this requirement. As of June 30, 2017, the cost basis in the fund was $24,300,170.

Note 4 – Utility Plant

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2017 and 2016:

Capital Asset Activity for Year Ended June 30, 2017

	Capital Assets FY Start	Transfers	Acquisition	Retirement	Capital Assets FY End
Water	$ 302,165,777	$ (17,127)	$ 7,454,989	$ (360,535)	$ 309,243,104
Electric	774,429,214	2,307	29,073,790	(115,583,946)	687,921,365
Steam	68,557,331	–	3,569,514	(511,869)	71,614,976
Chilled	33,998,140	–	25,776	–	34,023,916
Common	88,752,432	14,820	5,328,467	(1,766,344)	92,329,375
CUC	76,079,000	–	–	(76,079,000)	–
Total	$ 1,343,981,894	$ –	$ 45,452,536	$ (194,301,694)	$ 1,195,132,736

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2017

	Accum. Depr. FY Start	Depreciation Transfer	Depr. / Amort. and Impairment for Year	Depreciation Retirement	Accum. Depr. FY End
Water	$ (95,504,108)	$ 12,935	$ (6,394,657)	$ 275,090	$ (101,610,740)
Electric	(430,593,001)	1,885	(29,510,774)	104,989,516	(355,112,374)
Steam	(16,612,421)	–	(2,368,154)	102,862	(18,877,713)
Chilled	(10,231,244)	–	(1,178,037)	–	(11,409,281)
Common	(44,920,836)	(14,820)	(4,129,425)	1,758,802	(47,306,279)
CUC	(71,007,065)	–	(2,113,306)	73,120,371	–
Total	$ (668,868,675)	$ –	$ (45,694,353)	$ 180,246,641	$ (534,316,387)

Non-depreciable assets – Included in the table above are non-depreciable assets of $1,203,638 for water, $13,588,273 for electric, $124,224 for steam, and $412,339 for common facilities.

Erickson Power Station Impairment - In 2017, the BWL agreed to close the Erickson Power Station by 2025 as a result of a settlement with the Sierra Club in support of BWL's strategic plan. As a result, BWL recorded an impairment of $9,337,129 in 2017 using the service units approach to measure the impairment.

Eckert Power Station Impairment - In 2016, the BWL decided to close the Eckert Power Station by 2020 due to increasing operating costs, pending environmental regulations, and an uncertain future for coal-fired plants. As a result, BWL recorded an impairment of $15,763,520 in 2016 using the service units approach to measure the impairment.

Note 4 – Utility Plant (Continued)

Capital Asset Activity for Year Ended June 30, 2016

	Capital Assets FY Start	Transfers	Acquisition	Retirement	Capital Assets FY End
Water	$ 296,802,952	$ (17,925)	$ 7,034,735	$ (1,653,985)	$ 302,165,777
Electric	804,947,799	270,959	31,723,805	(62,513,349)	774,429,214
Steam	67,510,134	–	1,962,134	(914,937)	68,557,331
Chilled	33,622,140	–	376,000	–	33,998,140
Common	87,132,519	(253,034)	2,320,478	(447,531)	88,752,432
CUC	76,079,000	–	–	–	76,079,000
Total	$ 1,366,094,544	$ –	$ 43,417,152	$ (65,529,802)	$ 1,343,981,894

Accumulated Depreciation for Year Ended June 30, 2016

	Accum. Depr. FY Start	Depreciation Transfer	Depr. / Amort. and Impairment for Year	Depreciation Retirement	Accum. Depr. FY End
Water	$ (89,634,586)	$ 22,137	$ (7,266,780)	$ 1,375,121	$ (95,504,108)
Electric	(445,376,095)	(143,371)	(28,379,813)	43,306,278	(430,593,001)
Steam	(14,777,519)	–	(2,377,839)	542,937	(16,612,421)
Chilled	(9,027,683)	–	(1,203,561)	–	(10,231,244)
Common	(41,098,115)	121,234	(4,255,352)	311,397	(44,920,836)
CUC	(65,935,132)	–	(5,071,933)	–	(71,007,065)
Total	$ (665,849,130)	$ –	$ (48,555,278)	$ 45,535,733	$ (668,868,675)

Non-depreciable assets – Included in the table above are non-depreciable assets of $1,196,847 for water, $11,171,356 for electric, $124,224 for steam and $412,339 for common facilities.

Note 5 – Long-term Debt

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

	2017	2016
Water Supply, Steam, Chilled Water and Electric Utility System Revenue Refunding Bonds, Series 2017A, due serially beginning July 1, 2019 and continuing through July 1, 2032, plus interest at rates at 5.00%. Original amount of issue $30,365,000.	$ 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.	$ 18,025,000	$ 19,450,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2012A, due in annual principal installments beginning July 1, 2013 through July 1, 2018, plus interest at rates ranging from 2.00% to 5.00%. Original amount of issue $17,370,000.	10,375,000	15,735,000
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.	249,990,000	249,995,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2009A, due in annual principal installments due serially through July 1, 2016, plus interest at a rate of 5.34%. Original amount of issue $46,255,000.	–	3,030,000
Water Supply Utility System Revenue Bonds, Series 2008A, due serially beginning July 1, 2012 and continuing through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%. Original amount of issue $40,000,000.	3,420,000	39,165,000

Note 5 - Long-term Debt (Continued)

	2017	2016
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.	$ 8,932,605	$ 8,932,605
Lansing Economic Development Corp due in monthly installments of $4,500 through 2022.	22,500	-
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.	3,536,560	3,662,856
Total	324,666,665	339,970,461
Less current portion	(9,614,677)	(11,642,389)
Plus unamortized premium	13,700,925	9,777,301
Total long-term portion	$ 328,752,913	$ 338,105,373

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

Note 5 – Long-term Debt (Continued)

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

	Principal	Interest	Total
2018	$ 9,614,677	$ 15,747,806	$ 25,362,483
2019	9,397,346	15,596,169	24,993,515
2020	7,623,647	15,180,933	22,804,580
2021	7,958,023	14,848,557	22,806,580
2022	8,263,590	14,492,516	22,756,106
2023-2027	47,095,416	66,111,375	113,206,791
2028-2032	59,981,986	53,223,656	113,205,642
2033-2037	76,176,527	36,553,734	112,730,261
2038-2042	98,176,527	19,403,253	117,579,780
2043-2045	378,915	34,076	412,991
Total	$ 324,666,655	$ 251,192,075	$ 575,858,730

The 2008A, 2011A, 2012A, 2013A, and 2017A Bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2017, the balance of this reserve account was $24,384,188 (see Note 3). The 2009A Bonds were a private placement issue and have no reserve requirement.

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

The 2017A Bond is payable in annual installments in the years 2019 through 2027, inclusive, 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.

Note 5 - Long-term Debt (Continued)

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

The Series 2011A Bond is payable in annual installments in the years 2015 to 2022, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2022 shall be subject to redemption at the option of the BWL 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.

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

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

The long-term debt activity for the year ended June 30, 2017 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	$ 337,152,291	$ 12,595,471	$ 349,747,762
Additions	35,757,547	36,000	35,793,547
Reductions	(47,033,914)	(139,805)	(47,173,719)
Ending balance	$ 325,875,924	$ 12,491,666	$ 338,367,590
Due within one year	$ 8,210,000	$ 1,404,677	$ 9,614,677

Note 5 - Long-term Debt (Continued)

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 $560,058,461. During the current year, net revenues of the BWL were $61,682,378 compared to the annual debt requirements of $24,204,361.

The long-term debt activity for the year ended June 30, 2016 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	$ 349,128,869	$ 11,214,770	$ 360,343,639
Additions	-	3,789,161	3,789,161
Reductions	(11,976,578)	(2,408,460)	(14,385,038)
Ending balance	$ 337,152,291	$ 12,595,471	$ 349,747,762
Due within one year	$ 10,885,000	$ 757,389	$ 11,642,389

Advance Refunding

On February 15, 2017, Series 2017A Revenue Refunding Bonds in the amount of $30,365,000 were issued with an average yield rate of 2.58% to advance refund $34,680,000 of the outstanding Series 2008A Revenue Bonds with an average yield rate of 4.77%. The net proceeds, along with approximately $1.3 million of restricted funds on hand, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 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 $51,558,250 from 2017 through 2032. The cash flow requirements on the new bonds are $44,947,061 from 2017 through 2032. The advance refunding resulted in an economic gain of $4,020,830.

Note 6 – Costs/Credits Recoverable in Future Years

Central Utilities Complex

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under the regulatory basis of accounting as per GASB 62. The BWL has recorded recoverable (revenue) amortization of $0 and $(5,071,934) at June 30, 2017 and 2016, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC was reimbursed through payments received from this customer through 2017. The recoverable (revenue) amortization balance represented the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end. The CUC was sold to the customer in fiscal 2017 under the terms of the agreement.

Environmental Remediation

The GASB 49 environmental remediation liability related to a landfill site operated by the BWL was approved for regulated entity accounting under GASB 62 during the year ended June 30, 2004. As of June 30, 2017 and 2016, $20,848,000 in total costs has been recovered through the regulatory asset. As of June 30, 2017 and 2016, the amount remaining to be recovered in rates was zero. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

During the year ended June 30, 2006, the GASB 49 environmental remediation liability related to a second landfill was approved for regulated entity accounting under GASB 62. The balance of the regulatory asset at June 30, 2017 and 2016 was $1,858,705 and $7,076,982, 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, 2017 and 2016 for additional sites was $4,462,890 and $4,406,587, respectively.

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 energy cost adjustment (ECA), power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electricity, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in recoverable assets of $(1,237,497) and $2,302,845 at June 30, 2017 and 2016, 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 $5,407,828 and $6,217,249 as of June 30, 2017 and 2016, 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 $1,762,172 and $1,982,444 as of June 30, 2017 and 2016, respectively. The BWL will recognize this as revenue monthly over the life of the new chilled water plant to offset depreciation expense.

Wise Road

During the year ended June 30, 2012, the BWL chose to use regulatory accounting as per GASB 62 to recognize the insurance proceeds for the damaged equipment at the Wise Road Water Conditioning Plant (see Note 13). The remaining recoverable inflow of resources as of June 30, 2017 and 2016 was $11,709,619 and $12,692,245, respectively.

Note 7 – Transactions with the City of Lansing, Michigan

Operations – The BWL recognized revenue of $8,154,863 and $8,445,860 in 2017 and 2016, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of $913,190 and $849,884 in 2017 and 2016, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of $988,652 and $929,243 in 2017 and 2016, respectively, included in other income.

Return on Equity – Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. 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 no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City $21,862,457 in 2017 and $21,033,531 in 2016 of operational cash flow in excess of debt service requirements.

Note 8 – Retirement Plans

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

Note 8 – Retirement Plans (Continued)

Defined Benefit Plan

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

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

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

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2017 and 2016.

Employees Covered by Benefit Terms – At February 28, 2017 and 2016 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	2017	2016
Inactive plan members or beneficiaries currently receiving benefits	368	382
Inactive plan members entitled to but not yet receiving benefits	6	7
Active plan members	8	11
Total	382	400

Note 8 – Retirement Plans (Continued)

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

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

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

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2016 and 2017. Plan documents do not require participant contributions.

Note 8 – Retirement Plans (Continued)

Net Pension Asset – The components of the net pension asset of the BWL at June 30, 2017 and June 30, 2016 were as follows (in thousands):

	2017	2016
Total pension liability	$ 56,895	$ 61,178
Plan fiduciary net pension	65,924	65,442
Plan's net pension asset	$ (9,029)	$ (4,264)
Plan fiduciary net position, as a percentage of the total pension liability	115.87%	106.97%

The BWL has chosen to use June 30, 2017 as its measurement date for fiscal year 2017. The June 30, 2017 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation as of February 28, 2017, which used update procedures to roll forward the estimated liability to June 30, 2017.

The BWL has chosen to use June 30, 2016 as its measurement date for fiscal year 2016. The June 30, 2016 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2016. The June 30, 2016 total pension liability was determined by an actuarial valuation as of February 29, 2016, which used update procedures to roll forward the estimated liability to June 30, 2016.

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, 2015	$ 65,395	$ 73,679	$ (8,284)
Changes for the year:			
Service cost	223	–	223
Interest	4,625	–	4,625
Differences between expected and actual experience	299	–	299
Changes in assumptions	(1,468)	–	(1,468)
Net investment income	–	47	(47)
Benefit payments, including refunds	(7,896)	(7,896)	–
Administrative expenses	–	(388)	388
Miscellaneous other charges	–	–	–
Net changes	(4,217)	(8,237)	4,020
Balances at June 30, 2016	$ 61,178	$ 65,442	$ (4,264)
Changes for the year:			
Service cost	112	–	112
Interest	4,317	–	4,317
Differences between expected	–	–	–
and actual experience	(383)	–	(383)
Changes in assumptions	(857)	–	(857)
Net investment income	–	8,271	(8,271)
Benefit payments, including refunds	(7,472)	(7,472)	–
Administrative expenses	–	(317)	317
Miscellaneous other charges	–	–	–
Net changes	(4,283)	482	(4,765)
Balance at June 30, 2017	$ 56,895	$ 65,924	$ (9,029)

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, 2017, the BWL recognized pension expense of $(1,934,026). At June 30, 2017, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 31,206

For the year ended June 30, 2016, the BWL recognized pension expense of $(1,111,385). At June 30, 2016, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 2,930,218	$ -

Note 8 – Retirement Plans (Continued)

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

Years Ending June 30	
2018	$ (694,227)
2019	1,091,575
2020	302,576
2021	(731,130)
Total	$ (31,206)

Actuarial Assumptions – The total pension liability in the June 30, 2017 and June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.5%
Investment rate of return	7.50%

Mortality rates were based on the Healthy and Disabled, RP-2014 Mortality Table with MP-2016 Improvement Scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 11 active participants in fiscal year 2017 and 11 active participants in fiscal year 2016, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Note 8 – Retirement Plans (Continued)

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

Projected Cash Flows

Based on those assumptions, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the Defined Benefit Plan investments was applied to all periods of projected benefit payments to determine the total pension 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, 2017 and 2016 for each major asset class included in the Defined Benefit Plan's target asset allocation, as disclosed in the Defined Benefit Plan's financial statements, are summarized in the following table:

Asset Class	2017 Long-term Expected Real Rate of Return	2016 Long-term Expected Real Rate of Return
Fixed income	2.54%	2.60%
Domestic equity	7.94%	6.40%
International equity	8.66%	6.80%
Real estate	5.88%	N/A

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, 2017, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset) of the BWL (in thousands)	$ (4,900)	$ (9,029)	$ (12,879)

The following presents the net pension asset of the BWL at June 30, 2016, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset) of the BWL (in thousands)	$ 334	$ (4,264)	$ (8,541)

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.

Note 8 – Retirement Plans (Continued)

Defined Contribution Plan

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

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

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

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, 2017 and 2016, the BWL contributed $6,052,720 and $5,661,884, 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.*

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.

<u>Retiree Benefit Plan and Trust</u>

The Retiree Benefit Plan and Trust (the “Plan”) is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 713 participants eligible to receive benefits at June 30, 2017 and 715 participants eligible at June 30, 2016.

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, 2017 and 2016, the cost to BWL of maintaining the Retiree Benefit Plan was $9,573,671 and $9,423,081, of which respectively, was incurred as direct costs of benefits.

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

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

Note 8 - Retirement Plans (Continued)

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

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

The Plan's annual other postemployement benefit (OPEB) cost is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years. The annual OPEB contributions are on a pay-as-you-go accounting method because the Plan is overfunded.

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

Note 8 – Retirement Plans (Continued)

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

The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used range from 3.0 to 9.0 percent for the year ended June 30, 2017 and 2.5 to 9.0 percent for the year ended June 30, 2016.

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/15	$ 5,765	$ 9,671	168%	$ (4,186)
6/30/16	5,828	9,423	162%	(7,781)
6/30/17	7,583	9,574	126%	(9,772)

The net OPEB asset is included in other assets on the statement of net position.

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

Note 8 – Retirement Plans (Continued)

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

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
2/28/14	$ 148,307	$ 194,365	$ 46,058	76.30%	$ 47,012	98.0%
2/28/15	157,565	200,196	42,631	78.71%	50,613	84.2%
2/29/16	145,274	205,215	59,941	70.79%	53,540	112.0%

Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, which is administered by a trustee, the ICMA Retirement Corporation. The BWL makes contributions of $1,000 annually for the employees as of January 1 of each year, during the month of January. The BWL also will match employee contributions at one dollar for every one dollar up to $1,500 in a calendar year.

Note 9 – Commitments and Contingencies

At June 30, 2017 and 2016, the BWL has two letters of credit in the amounts of $1,000,000 and $817,220 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

Note 9 – Commitments and Contingencies (Continued)

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL is currently in the process of applying for approval from the State of Michigan to remediate the sites. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of $7,608,844 and $7,853,780 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling $6,971,000 through December 31, 2018. 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 $29,289,000 through December 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 $120,767,000 and $74,828,000 at June 30, 2017 and 2016, respectively, including commitments on existing construction contracts approximating $12,676,000 and $5,278,000 at June 30, 2017 and 2016, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets. There are additional commitments on projects in the process of being constructed that are not included above.

Environmental Protection Agency (EPA) Notice of Violation

On March 19, 2015, the EPA served the BWL with a Notice of Violation specifically focused on the BWL's Erickson capital projects.

As of the date of the financial statements, the claims alleged have no specific dollar figure, nor has the resolution of the same been finalized. The amount of an anticipated loss, if any, cannot be reasonably estimated.

Note 10 – Power Supply Purchase

In 1983, the BWL entered into 35-year 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.

Note 10 – Power Supply Purchase (Continued)

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

Year	Debt Service and Capital	Estimated Fixed Operating Costs	Total Required
2018	$ 12,010,836	$ 13,398,096	$ 25,408,932
2019	–	13,737,534	13,737,534
Total	$ 12,010,836	$ 27,135,630	$ 39,146,466

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 2017 and 2016 of $53,418,377 and $50,425,873, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

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

The BWL has entered into agreements with Granger Electric Company to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028 and September 30, 2028. The minimum power to be purchased in the contract is 3.2 megawatts, with the option to purchase up to 12 megawatts depending on capacity. The price of the electricity is based on the BWL's cost of electricity generation. The total amount of electricity expected to be purchased for the remainder of these contracts is estimated at $88,786,000.

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 2008A, 2011A, 2012A, 2013A, and 2017A 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, 2017 and 2016. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

Note 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.

Note 12 – Risk Management and Insurance (Continued)

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

	Workers' Compensation			Health Insurance		
	2017	2016	2015	2017	2016	2015
Unpaid claims - Beginning of year	$ 2,200,000	$ 2,200,000	$ 2,000,000	$ 1,167,466	$ 1,188,172	$ 1,637,276
Incurred claims, including claims incurred but not reported	86,951	348,038	554,773	13,838,436	13,797,887	20,853,299
Claim payments	(86,951)	(348,038)	(354,773)	(13,838,436)	(13,818,593)	(21,302,403)
Unpaid claims - End of year	$ 2,200,000	$ 2,200,000	$ 2,200,000	$ 1,167,466	$ 1,167,466	$ 1,188,172

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

Note 13 – Upcoming Pronouncements

GASB has approved GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. When they become effective, application of these standards may restate portions of these financial statements.

Required Supplemental Information

Board of Water and Light - City of Lansing, Michigan

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

	2017	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*
Total Pension Liability										
Service cost	$ 113	$ 223	$ 274	$ 349	$ 407	$ -	$ -	$ -	$ -	$ -
Interest	4,317	4,625	4,919	4,751	5,085	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(383)	299	(1,093)	964	(1,716)	-	-	-	-	-
Changes in assumptions **	(857)	(1,468)	-	4,538	-	-	-	-	-	-
Benefit payments, including refunds	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-	-
Net Change in Total Pension Liability	(4,283)	(4,217)	(3,946)	2,061	(4,001)	-	-	-	-	-
Total Pension Liability - Beginning of year	61,178	65,395	69,341	67,280	71,281	-	-	-	-	-
Total Pension Liability - End of year	56,895	61,178	65,395	69,341	67,280	-	-	-	-	-
Plan Fiduciary Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	8,272	47	1,771	14,243	10,170	-	-	-	-	-
Administrative expenses	(317)	(388)	(576)	(596)	(536)	-	-	-	-	-
Benefit payments, including refunds	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Plan Fiduciary Net Position	482	(8,237)	(6,850)	5,106	1,857	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of year	65,442	73,679	80,529	75,424	73,567	-	-	-	-	-
Plan Fiduciary Net Position - End of year	65,924	65,442	73,679	80,530	75,424	-	-	-	-	-
BWL Net Pension Asset - Ending	**$ (9,029)**	**$ (4,264)**	**$ (8,284)**	**$ (11,189)**	**$ (8,144)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Fiduciary Net Position as a % of Total Pension Liability	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %
Covered Employee Payroll	586	772	1,018	1,225	1,684	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %	- %	- %	- %

*GASB Statement No. 68 was implemented as of June 30, 2015. Information from 2008 - 2012 is not available and this schedule will be presented on a prospective basis.
**Related to change in the mortality assumption from the RP2000CH table projected to 2018 with Scale AA to the RP-2014 table projected generationally with Scale MP-2015

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ -	$ 86	$ 2,109	$ -	$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	86	2,109	-	-
Contribution Deficiency (Excess)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Employee Payroll	586	772	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	3.59%	79.29%	- %	- %

Required Supplemental Information (unaudited)
Retiree Benefit Plan and Trust Schedule
For the Years Ended June 30, 2017 and 2016

The schedule of funding progress is as follows:

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
2/28/14	$ 148,307	$ 194,365	$ 46,058	76.30%	$ 47,012	98.0%
2/28/15	157,565	200,196	42,631	78.71%	50,613	84.2%
2/29/16	145,274	205,215	59,941	70.79%	53,540	112.0%

Additional Information

Income Available for Revenue Bond Debt Retirement

	For the Year Ended June 30	
	2017	2016
Income - Before capital contributions per statement of revenues, expenses, and changes in net position	$ 4,329,140	$ 900,064
Adjustments to Income		
Depreciation and impairment	51,935,552	57,305,081
Interest on long-term debt:		
Notes	51,446	51,049
Revenue bonds	14,703,367	14,861,300
Total additional income	66,690,365	72,217,430
Income Available for Revenue Bonds and Interest Redemption	**$ 71,019,505**	**$ 73,117,494**
Debt Retirement Pertaining to Revenue Bonds		
Principal	$ 8,210,000	$ 10,885,000
Interest	16,049,511	16,569,252
Total	**$ 24,259,511**	**$ 27,454,252**
Percent Coverage of Revenue Bonds and Interest Requirements	**293**	**266**

	Combined		Water	
	2017	2016	2017	2016
Operating Revenues				
Water	$ 40,738,054	$ 38,730,602	$ 40,738,054	$ 38,730,602
Electric:				
Retail	280,955,243	278,489,705	-	-
Sales for resale	31,969,934	24,756,061	-	-
Steam	11,404,174	12,683,463	-	-
Chilled water	6,362,308	6,275,583	-	-
Total operating revenues	371,429,713	360,935,414	40,738,054	38,730,602
Operating Expenses				
Production:				
Fuel, purchased power, and other operating expenses	161,787,983	159,118,150	8,782,872	8,026,915
Maintenance	18,725,293	19,839,991	3,074,073	3,239,156
Transmission and distribution:				
Operating expenses	10,139,726	7,404,258	1,392,291	1,535,532
Maintenance	15,839,208	14,189,340	2,827,509	2,651,954
Administrative and general	73,449,089	64,007,040	11,337,545	10,271,709
Return on Equity	21,862,457	21,033,531	2,429,849	2,298,643
Depreciation	42,598,423	41,541,561	6,657,053	6,607,984
Total operating expenses	344,402,179	327,133,871	36,501,192	34,631,893
Operating Income	27,027,534	33,801,543	4,236,862	4,098,709
Nonoperating Income (Expenses)				
Investment income	914,829	1,913,873	98,653	291,934
Other (expense) income	478,719	(4,588,160)	923,068	(831,206)
Impairment on Eckert Plant	-	(15,763,520)	-	-
Impairment on Erickson Plant	(9,337,129)	-	-	-
System capacity fee	-	3,351,392	-	293,582
Bonded debt interest expense	(14,703,367)	(14,861,300)	(1,758,663)	(1,973,434)
Amortization - Central Utilities Complex	-	(2,902,715)	-	(254,278)
Other interest expense	(51,446)	(51,049)	(4,419)	(2,838)
Total nonoperating expense	(22,698,394)	(32,901,479)	(741,361)	(2,476,240)
Net Income (Loss)	**$ 4,329,140**	**$ 900,064**	**$ 3,495,501**	**$ 1,622,469**

Detail of Statements of Revenues and Expenses
For the Years Ended June 30, 2017 and 2016

Electric		Steam		Chilled Water	
2017	2016	2017	2016	2017	2016
$ -	$ -	$ -	$ -	$ -	$ -
280,955,243	278,489,705	-	-	-	-
31,969,934	24,756,061	-	-	-	-
-	-	11,404,174	12,683,463	-	-
-	-	-	-	6,362,308	6,275,583
312,925,177	303,245,766	11,404,174	12,683,463	6,362,308	6,275,583
146,768,880	144,516,334	4,450,412	4,862,084	1,785,819	1,712,817
14,887,491	15,599,674	409,666	767,751	354,063	233,410
8,442,706	5,515,861	304,729	352,865	-	-
12,569,323	11,136,141	442,376	401,245	-	-
60,214,809	52,476,238	1,456,269	1,011,070	440,466	248,023
18,418,803	17,667,200	625,702	687,791	388,103	379,897
32,004,536	30,949,620	2,538,286	2,553,160	1,398,548	1,430,797
293,306,548	277,861,068	10,227,440	10,635,966	4,366,999	4,004,944
19,618,629	25,384,698	1,176,734	2,047,497	1,995,309	2,270,639
695,357	1,484,122	88,579	79,313	32,240	58,504
(270,184)	(5,909,578)	(397,548)	1,928,331	223,383	224,293
-	(15,763,520)	-	-	-	-
(9,337,129)	-				
-	2,802,434	-	255,376	-	-
(10,339,513)	(10,242,601)	(1,966,111)	(1,984,250)	(639,080)	(661,015)
-	(2,427,250)	-	(221,187)	-	-
(47,003)	(48,174)	(24)	(37)	-	-
(19,298,472)	(30,104,567)	(2,275,104)	57,546	(383,457)	(378,218)
$ 320,157	**$ (4,719,869)**	**$ (1,098,370)**	**$ 2,105,043**	**$ 1,611,852**	**$ 1,892,421**

Detail of Statements of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
Net Position - June 30, 2015	$ 595,190,406	$ 95,415,086	$ 501,568,799	$ (3,585,325)	$ 1,791,846
Income (loss) before contributions	900,064	1,622,469	(4,719,869)	2,105,043	1,892,421
Net Position - June 30, 2016	596,090,470	97,037,555	496,848,930	(1,480,282)	3,684,267
Income (loss) before contributions	4,329,140	3,495,501	320,157	(1,098,370)	1,611,852
Net Position - June 30, 2017	$ 600,419,610	$ 100,533,056	$ 497,169,087	$ (2,578,652)	$ 5,296,119

Pension Trust Funds - Detail of Statements of Net Position

	As of June 30, 2017			
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - investment interest receivable	$ -	$ 153,010	$ 425,197	$ 578,207
Trade receivable - due from broker	-	46,051	88,410	134,461
Investments at fair value:				
Cash and money market trust fund	-	1,088,909	2,927,461	4,016,370
U.S. government obligations	-	9,053,469	29,051,025	38,104,494
Fixed income securities	-	12,156,276	33,706,611	45,862,887
Mutual funds	144,942,486	22,381,599	53,089,093	220,413,178
Stable value	35,270,975	-	-	35,270,975
Partnership	-	1,117,790	-	1,117,790
Common stock	-	19,938,242	54,440,986	74,379,228
Self-directed brokerage account	1,826,494	-	-	1,826,494
Participant notes receivable	3,899,938	-	-	3,899,938
Total investments	185,939,893	65,736,285	173,215,176	424,891,354
Liabilities				
Trade payable - due to broker	-	11,533	93,727	105,260
Net Position - Held in trust for pension and other employee benefits	**$ 185,939,893**	**$ 65,923,813**	**$ 173,635,056**	**$ 425,498,762**

	As of June 30, 2016			
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - investment interest receivable	$ -	$ 143,225	$ 386,930	$ 530,155
Investments at fair value:				
Cash and money market trust fund	-	746,554	13,498,404	14,244,958
U.S. government obligations	-	7,565,160	21,458,288	29,023,448
Fixed income securities	-	10,491,022	28,725,054	39,216,076
Mutual funds	131,736,753	7,908,757	15,208,788	154,854,298
Stable value	34,193,741	-	-	34,193,741
Partnership	-	1,101,086	-	1,101,086
Common stock	-	37,486,031	77,022,878	114,508,909
Self-directed brokerage account	1,551,450	-	-	1,551,450
Participant notes receivable	3,749,371	-	-	3,749,371
Total investments	171,231,315	65,298,610	155,913,412	392,443,337
Net Position - Held in trust for pension and other employee benefits	**$ 171,231,315**	**$ 65,441,835**	**$ 156,300,342**	**$ 392,973,492**

Pension Trust Funds - Detail of Statement of Changes in Net Position
For the Year Ended June 30, 2017

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	$ 15,347,096	$ 6,553,152	$ 13,724,335	$ 35,624,583
Interest and dividend income	4,144,461	1,718,523	4,315,172	10,178,156
Net investment income (loss)	19,491,557	8,271,675	18,039,507	45,802,739
Employer contributions	6,052,720	-	9,573,671	15,626,391
Participant rollover contributions	1,051,032	-	-	1,051,032
Interest from participant notes receivable	156,466	-	-	156,466
Total increases	26,751,775	8,271,675	27,613,178	62,636,628
Decreases				
Retiree benefits paid	11,877,805	7,472,625	9,573,671	28,924,101
Loan defaults	72,325	-	-	72,325
Participants' note and administrative fees	93,067	317,072	704,793	1,114,932
Total decreases	12,043,197	7,789,697	10,278,464	30,111,358
Change in Net Position Held in Trust	14,708,578	481,978	17,334,714	32,525,270
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	171,231,315	65,441,835	156,300,342	392,973,492
End of year	**$ 185,939,893**	**$ 65,923,813**	**$ 173,635,056**	**$ 425,498,762**

Pension Trust Funds - Detail of Statement of Changes in Net Position
For the Year Ended June 30, 2016

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income (loss):				
Net appreciation (depreciation)				
in fair value of investments	$ (8,061,276)	$ (1,459,436)	$ (2,293,242)	$ (11,813,954)
Interest and dividend income	6,555,315	1,506,198	3,242,238	11,303,751
Net investment income (loss)	(1,505,961)	46,762	948,996	(510,203)
Employer contributions	5,661,884	-	9,423,081	15,084,965
Participant rollover contributions	2,026,588	-	-	2,026,588
Interest from participant notes receivable	150,624	-	-	150,624
Total increases	6,333,135	46,762	10,372,077	16,751,974
Decreases				
Retiree benefits paid	7,946,117	7,895,766	9,423,081	25,264,964
Loan defaults	186,801	-	-	186,801
Participants' note and administrative fees	89,538	388,495	831,872	1,309,905
Total decreases	8,222,456	8,284,261	10,254,953	26,761,670
Change in Net Position Held in Trust	(1,889,321)	(8,237,499)	117,124	(10,009,696)
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	173,120,636	73,679,334	156,183,218	402,983,188
End of year	**$ 171,231,315**	**$ 65,441,835**	**$ 156,300,342**	**$ 392,973,492**

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

Financial Report

with Required Supplemental Information

As of and for the Years Ended June 30, 2017 and 2016

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Plan for Employees' Pension of the Board of Water and Light – City of Lansing, Michigan – Defined Benefit Plan (the "Plan") as of and for the years ended June 30, 2017 and 2016, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2017 and 2016, and the respective changes in financial 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 Virchow Krause, LLP

Madison, Wisconsin
September 13, 2017

Using this Annual Report

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

Condensed Financial Information

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

	2017	2016	2015
Assets held in trust:			
Money market collective trust fund	$ 1,088,909	$ 746,554	$ 2,321,310
U.S. government obligations	9,053,469	7,565,160	6,659,203
Fixed income securities	12,156,276	10,491,022	11,312,551
Mutual funds	22,381,599	7,908,757	925,065
Partnership	1,117,790	1,101,086	1,098,790
Common stock	19,938,242	37,486,031	51,257,647
Trade Receivable due from Broker	46,051	-	-
Interest and dividend receivable	153,010	143,225	104,768
Total assets held in trust	**$ 65,935,346**	**$ 65,441,835**	**$ 73,679,334**
Liabilities - Accrued liabilities	$ 11,533	$ -	$ -
Net position restricted for pension	65,923,813	65,441,835	73,679,334
Total liabilities and net position	**$ 65,935,346**	**$ 65,441,835**	**$ 73,679,334**
Changes in net position:			
Net investment income (loss)	$ 8,271,675	$ 46,762	$ 1,771,423
Benefits payments	(7,472,625)	(7,895,766)	(8,045,948)
Administrative fees	(317,072)	(388,495)	(576,122)
Net change in net position	**$ 481,978**	**$ (8,237,499)**	**$ (6,850,647)**

During fiscal year 2017, net investment gain was $8,272,000. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

Employer contributions were $0 in fiscal year 2017 according to the Board of Water and Light - City of Lansing, Michigan's (the "BWL") annual required contribution (ARC) as determined by the BWL's actuary.

Benefit payments in fiscal year decreased by $0.4 million to $7.5 million. This was due to a decrease in funds distributed in the form of lump-sum payouts upon retirement in fiscal year 2017 as compared to fiscal year 2016.

Investment Objectives and Asset Allocation

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

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

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

U.S. Equities	35%
Non-U.S. Equities	10%
Global Fixed Income	35%
Commercial Real Estate	10%
Alternative Investments	10%

Future Events

The Plan is currently overfunded, with a funded ratio (actuarial asset value divided by actuarial accrued liability) of 116 percent. This funding level results in an annual pension cost of $0 for fiscal year 2017. The board does not expect to make contributions to the trust in fiscal year 2018.

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

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, you may write the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

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

Statement of Plan Net Position

	As of June 30	
	2017	2016
Assets		
Investments at fair value:		
Cash and money market trust fund	$ 1,088,909	$ 746,554
U.S. government obligations	9,053,469	7,565,160
Fixed income securities	12,156,276	10,491,022
Mutual funds	22,381,599	7,908,757
Partnership	1,117,790	1,101,086
Common stocks	19,938,242	37,486,031
Total investments at fair value	65,736,285	65,298,610
Trade receivable - due from broker	46,051	-
Receivable - investment interest receivable	153,010	143,225
Total assets	65,935,346	65,441,835
Liabilities		
Trade payable - due to broker	11,533	-
Net Position Restricted for Pensions	**$ 65,923,813**	**$ 65,441,835**

See Notes to Financial Statements.

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

Statement of Changes in Plan Net Position

	For the Year Ended June 30	
	2017	2016
Additions		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ 6,553,152	$ (1,459,436)
Interest and dividend income	1,718,523	1,506,198
Total investment income	8,271,675	46,762
Deductions		
Retiree benefits paid	7,472,625	7,895,766
Administrative expenses	317,072	388,495
Total deductions	7,789,697	8,284,261
Net Increase (Decrease) in Net Position held in trust	481,978	(8,237,499)
Net Position Restricted for Pensions		
Beginning of year	65,441,835	73,679,334
End of year	**$ 65,923,813**	**$ 65,441,835**

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

Accounting and Reporting Principles

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

Basis of Accounting

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

Report Presentation

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

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

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

Use of Estimates – The preparation of financial statements in conformity with 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 Pension Board administers the Plan – a noncontributory single-employer defined benefit pension plan for employees of the BWL. The benefit terms were established by the BWL and may be amended by future BWL actions.

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

Note 2 - Plan Description (Continued)

Plan Membership - At February 28, 2017 and February 29, 2016 (the most recent actuarial valuation for funding purposes), plan membership consisted of the following:

	2017	2016
Inactive plan members or beneficiaries currently receiving benefits	368	382
Inactive plan members entitled to but not yet receiving benefits	6	7
Active plan members	8	11
Total	382	400

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.

Note 2 - Plan Description (Continued)

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

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2017 and 2016. 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 pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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 Board of Water and Light and are therefore not subject to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The average maturities of investments are as follows as of June 30, 2017:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 9,053,469	12.53 Years
Fixed income securities	12,156,276	12.83 Years
Money market trust fund	1,088,909	Less than 1 year
Portfolio weighted average maturity		12.70 years

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

The average maturities of investments are as follows as of June 30, 2016:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 7,565,160	14.26 years
Fixed income securities	10,491,022	13.56 years
Money market trust fund	743,295	Less than 1 year
Portfolio weighted average maturity		13.33 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, 2017:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	$ 9,053,469	Not rated	Not rated
Fixed income securities	596,786	AAA	S&P
Fixed income securities	4,853,253	AA+	S&P
Fixed income securities	473,265	AA	S&P
Fixed income securities	438,373	AA-	S&P
Fixed income securities	284,823	A+	S&P
Fixed income securities	1,222,741	A	S&P
Fixed income securities	978,958	A-	S&P
Fixed income securities	1,884,579	BBB+	S&P
Fixed income securities	916,393	BBB	S&P
Fixed income securities	404,115	BBB-	S&P
Fixed income securities	8,170	BB+	S&P
Fixed income securities	94,820	CCC	S&P
Money market trust funds	1,088,909	Not rated	Not rated

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

The credit quality ratings of debt securities are as follows as of June 30, 2016:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	$ 7,565,160	Not rated	Not rated
Fixed income securities	348,392	AAA	S&P
Fixed income securities	4,684,590	AA+	S&P
Fixed income securities	154,460	AA	S&P
Fixed income securities	82,918	AA-	S&P
Fixed income securities	397,026	A+	S&P
Fixed income securities	1,020,452	A	S&P
Fixed income securities	959,554	A-	S&P
Fixed income securities	1,536,681	BBB+	S&P
Fixed income securities	932,173	BBB	S&P
Fixed income securities	235,907	BBB-	S&P
Fixed income securities	8,185	BB+	S&P
Fixed income securities	18,900	BB	S&P
Fixed income securities	5,440	BB-	S&P
Fixed income securities	106,344	CCC	S&P
Money market trust funds	746,554	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, 2017 and 2016, there were no excess pension plan assets available for transfer.

Note 5 - Tax Status

The Plan obtained its determination letter dated November 4, 2011, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has since been amended. Management believes the 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, 2017 and 2016:

Asset Class	2017 Target Allocation	2016 Target Allocation
Global Fixed Income	35%	31%
U.S. Equities	35%	55%
Non-U.S. Equities	10%	14%
Commercial real estate	10%	N/A
Alternative Investments	10%	N/A

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 12.10 percent. For the year ended June 30, 2016, the annual money-weighted rate of return on plan investments, net of plan investment expense, was (0.49) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 7 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2017 and 2016 were as follows (in thousands):

	2017	2016
Total pension liability	56,895	$ 61,178
Plan fiduciary net pension	65,924	65,442
Plan's net pension asset	(9,029)	$ (4,264)
Plan fiduciary net position, as a percentage of the total pension liability	115.87%	106.97%

Actuarial Assumptions – The June 30, 2017 total pension liability was determined by an actuarial valuation as of February 28, 2017, which used update procedures to roll forward the estimated liability to June 30, 2017. The June 30, 2016 total pension liability was determined by an actuarial valuation as of February 29, 2016, which used update procedures to roll forward the estimated liability to June 30, 2016. 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. Nyhart Actuary & Employee Benefits was the actuary for the February 28, 2017 and February 29, 2016 valuations. The valuations used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50%
Investment rate of return	7.50%

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.

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

The mortality table was based on the RP-2014 mortality table with MP-2016 Improvement Scale.

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2017 and 2016 for each major asset class included in the pension plan's target asset allocation, as disclosed in Note 6, are summarized in the following table:

Asset Class	2017 Long-term Expected Real Rate of Return	2016 Long-term Expected Real Rate of Return
Fixed income	2.54%	2.00%
Domestic equity	7.94%	6.40%
International equity	8.66%	6.80%
Real estate	5.88%	N/A

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, 2017, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset) of the BWL (in thousands)	$ (4,900)	$ (9,029)	$ (12,879)

The following presents the net pension asset of the BWL at June 30, 2016, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset) of the BWL (in thousands)	$ 334	$ (4,264)	$ (8,541)

Note 9 – 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.
- 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.

Note 9 – 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, 2017 and 2016:

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 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.

Partnership: Valued using either NAV, valuations provided by management reflecting the partnership's share of capital account balance, or the income and market approach.

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.

Note 9 – 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, 2017 and 2016:

	June 30, 2017			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ –	$ 1,088,909	$ –	$ 1,088,909
U.S. government obligations	–	9,053,469	–	9,053,469
Fixed income securities	–	12,156,276	–	12,156,276
Mutual funds	–	22,381,599	–	22,381,599
Partnership	–	–	1,117,790	1,117,790
Common stocks	19,938,242	–	–	19,938,242
Total	$ 19,938,242	$ 44,680,253	$ 1,117,790	$ 65,736,285

	June 30, 2016			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ –	$ 746,554	$ –	$ 746,554
U.S. government obligations	–	7,565,160	–	7,565,160
Fixed income securities	–	10,491,022	–	10,491,022
Mutual funds	–	7,908,757	–	7,908,757
Partnership	–	–	1,101,086	1,101,086
Common stocks	37,486,031	–	–	37,486,031
Total	$ 37,486,031	$ 26,711,493	$ 1,101,086	$ 65,298,610

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 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 Supplemental Information

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

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

	2017	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*
Total Pension Liability										
Service cost	$ 113	$ 223	$ 274	$ 349	$ 407	$ -	$ -	$ -	$ -	$ -
Interest	4,317	4,625	4,919	4,751	5,085	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(383)	299	(1,093)	964	(1,716)	-	-	-	-	-
Changes in assumptions **	(857)	(1,468)	-	4,538	-	-	-	-	-	-
Benefit payments, including refunds	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-	-
Net Change in Total Pension Liability	(4,283)	(4,217)	(3,946)	2,061	(4,001)	-	-	-	-	-
Total Pension Liability - Beginning of year	61,178	65,395	69,341	67,280	71,281	-	-	-	-	-
Total Pension Liability - End of year	56,895	61,178	65,395	69,341	67,280	-	-	-	-	-
Plan Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	8,272	47	1,771	14,243	10,170	-	-	-	-	-
Administrative expenses	(317)	(388)	(576)	(596)	(536)	-	-	-	-	-
Benefit payments, including refunds	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	482	(8,237)	(6,850)	5,106	1,857	-	-	-	-	-
Net Position Retricted for Pensions - Beginning of year	65,442	73,679	80,529	75,424	73,567	-	-	-	-	-
Net Position Restricted for Pensions - End of year	65,924	65,442	73,679	80,530	75,424	-	-	-	-	-
BWL Net Pension Asset - Ending	**$ (9,029)**	**$ (4,264)**	**$ (8,284)**	**$ (11,189)**	**$ (8,144)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Net Position as a % of Total Pension Liability	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %
Covered Employee Payroll	586	772	1,018	1,225	1,684	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2008 - 2012 is not available and this schedule will be presented on a prospective basis.

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

**Related to change in the mortality assumption from the RP-2014 Mortality Table with MP-2015 Improvement Scale in 2016.

See Note to Required Supplemental Information.

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

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ -	$ 86	$ 2,109	$ -	$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	86	2,109	-	-
Contribution Deficiency (Excess)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Employee Payroll	586	772	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	3.59%	79.29%	- %	- %

See Note to Required Supplemental Information.

Actuarial valuation information relative to the determination of contributions:

Valuation date	June 30, 2017, based on roll-forward of March 1, 2017 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	3.0 percent
Salary increases	3.5 percent per year
Investment rate of return	7.5 percent per year compounded annually
Mortality	RP-2014 Mortality Table with MP-2016 Improvement Scale

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

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

	2017	2016	2015	2014	2013*	2012*	2011*	2010*	2009*	2008*
Annual money-weighted rate of return, net of investment expense	12.10%	(0.49%)	1.55%	19.18%	- %	- %	- %	- %	- %	- %

*GASB 67 was implemented as of June 30, 2014. Information from 2008 - 2013 is not available and this schedule will be presented on a prospective basis

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

Financial Report

with Required Supplemental Information

As of and for the Years Ended June 30, 2017 and 2016

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

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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 Employees’ Defined
Contribution Pension Plan
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Lansing Board of Water and Light Employees’ Defined Contribution Pension Plan (the “Plan”), as of and for the years ended June 30, 2017 and 2016, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2017 and 2016, and the respective changes in financial 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 Virchow Krause, LLP

Madison, Wisconsin
September 13, 2017

Using this Annual Report

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

Condensed Financial Information

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

	2017	2016	2015
Assets held in trust:			
Mutual funds	$ 136,451,476	$ 124,001,268	$ 130,790,091
Stable value	35,270,975	34,193,741	31,844,948
Guaranteed income fund	8,491,010	7,735,485	5,220,516
Participant notes receivable and other	5,726,432	5,300,821	5,265,081
Net position	**$ 185,939,893**	**$ 171,231,315**	**$ 173,120,636**
Changes in plan assets:			
Net investment income/(loss)	$ 19,491,557	$ (1,505,961)	$ 7,317,020
Employer and participant contributions	7,103,752	7,688,472	6,893,841
Benefits paid to participants	(11,877,805)	(7,946,117)	(10,451,713)
Loan defaults and other changes	(8,926)	(125,715)	81,749
Changes in net position	**$ 14,708,578**	**$ (1,889,321)**	**$ 3,840,897**

Investment Objectives

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

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

Investment Results

The fiscal year ended June 30, 2017 saw a net investment gain of $19.5 million. Total assets held in trust at the end of the fiscal year were $185.9 million.

Future Events

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

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, you may write the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 4907-3007.

Statement of Net Position

	As of June 30	
	2017	2016
Assets		
Participant-directed investments (Note 1):		
Mutual funds	$ 136,451,476	$ 124,001,268
Stable value	35,270,975	34,193,741
Guaranteed income fund	8,491,010	7,735,485
Self-directed brokerage account	1,826,494	1,551,450
Total participant-directed investments	182,039,955	167,481,944
Participant notes receivable	3,899,938	3,749,371
Net Position Restricted for Pensions	**$ 185,939,893**	**$ 171,231,315**

See Notes to Financial Statements.

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

Statement of Changes in Net Position

	For the Year Ended June 30	
	2017	2016
Increase		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	$ 15,347,096	$ (8,061,276)
Dividend income	4,144,461	6,555,315
Total investment income (loss)	19,491,557	(1,505,961)
Employer contributions (Note 1)	6,052,720	5,661,884
Participant rollover contributions	1,051,032	2,026,588
Interest from participant notes receivable	156,466	150,624
Total increase	26,751,775	6,333,135
Decrease		
Benefits paid to participants	11,877,805	7,946,117
Loan defaults	72,325	186,801
Participants' note and administrative fees	93,067	89,538
Total decrease	12,043,197	8,222,456
Increase (Decrease) in Net Position Held in Trust	14,708,578	(1,889,321)
Net Position Restricted for Pensions		
Beginning of year	171,231,315	173,120,636
End of year	**$ 185,939,893**	**$ 171,231,315**

See Notes to Financial Statements.

Note 1 - Description of the Plan

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

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

ICMA-RC, the Plan administrator, controls and manages the operation and administration of the Plan.

Contributions - For employees hired before January 1, 1997, the BWL is required to contribute 15 percent of the employees' compensation. For employees hired on or after January 1, 1997, the BWL is required to contribute 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. The Board of Commissioners of the Board of Water and Light - City of Lansing may amend the Plan's provisions and contribution requirements.

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, 2017, there were 924 participants in the Plan, of which 713 were active employees. As of June 30, 2016, there were 915 participants in the Plan, of which 705 were active employees.

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

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

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

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

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

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.

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 – 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.

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.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform with current year presentations except for the Supplemental Information. The reclassifications have no effect on net income.

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 member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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.

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 – The Plan's expenses are paid by the BWL as provided by the Plan document.

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

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, 2017 and 2016, the Plan has no bank deposits.

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of June 30, 2017, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 136,451,476	Not rated	Not rated
Stable value	35,270,975	AA-	S&P

Note 3 – Investments (Continued)

As of June 30, 2016, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 124,001,268	Not rated	Not rated
Stable value	34,193,741	AA	S&P

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 address this risk. At June 30, 2017, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Mutual funds – Bond funds	$19,198,075	5.5 years

At June 30, 2016, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Mutual funds – Bond funds	$17,070,665	5.6 years

Note 4 - Plan Termination

Although it has not expressed any intention to do so, the BWL has the right under the Plan to terminate the Plan subject to the provisions set forth in Article 14 of the Plan. In the event of any termination of the Plan, or upon complete or partial discontinuance of contributions, the accounts of each affected participant shall become fully vested.

Note 5 - Tax Status

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

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.
- 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

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, 2017 and 2016:

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 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.

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, 2017 and 2016:

	June 30, 2017			
Investment Type	Level 1	Level 2	Level 3	Total
Mutual funds:				
Money market	$ 598,132	$ -	$ -	$ 598,132
Bond and equity funds	19,198,075	-	-	19,198,075
Stock funds	64,715,339	-	-	64,715,339
Balanced funds	29,103,168	-	-	29,103,168
Growth funds	6,306,873	-	-	6,306,873
International funds	16,529,889	-	-	16,529,889
Self-directed brokerage account	1,826,494	-	-	1,826,494
Total investments by fair value level	$ 138,277,970	$ -	$ -	$ 138,277,970
Investments measured at the net asset value (NAV)				
Stable value				35,270,975
Guaranteed Lifetime Income				8,491,010
Total Investments Measured at Fair Value				$ 182,039,955

Note 6 – Fair Value Measurements (Continued)

	June 30, 2016			
Investment Type	Level 1	Level 2	Level 3	Total
Mutual funds:				
Money market	$ 675,272	$ -	$ -	$ 675,272
Bond and equity funds	17,070,664	-	-	17,070,664
Stock funds	60,866,409	-	-	60,866,409
Balanced funds	24,859,849	-	-	24,859,849
Growth funds	6,212,755	-	-	6,212,755
International funds	14,316,319	-	-	14,316,319
Self-directed brokerage account	1,551,450	-	-	1,551,450
Total investments by fair value level	$ 125,552,718	$ -	$ -	$ 125,552,718
Investments measured at the net asset value (NAV)				
Stable value				34,193,741
Guaranteed Lifetime Income				7,735,485
Total Investments Measured at Fair Value				$ 167,481,944

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 $35,270,975 and $34,193,741 as of June 30, 2017 and 2016, respectively and the guaranteed lifetime income fund had a fair value of $8,491,010 and $7,735,485, 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 Net Position.

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.

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Financial Report

with Required Supplemental Information

As of and for the Years Ended June 30, 2017 and 2016

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

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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 Retiree Benefit Plan
and Trust
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the “Plan”), a trust fund of Lansing Board of Water and Light, as of and for the years ended June 30, 2017 and 2016, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2017 and 2016, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Plan adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* effective July 1, 2016. Our opinion is not modified with respect to this matter.

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 Virchow Krause, LLP

Madison, Wisconsin
September 13, 2017

Using this Annual Report

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

Condensed Financial Information

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

	2017	2016	2015
Assets held in trust:			
Cash and money market trust funds	$ 2,927,461	$ 13,498,404	$ 6,243,203
Fixed income securities	33,706,611	28,725,054	21,269,571
U.S. government obligations	29,051,025	21,458,288	15,462,341
Equities	54,440,986	77,022,878	111,112,369
Mutual funds and other	53,089,093	15,208,788	1,894,929
Interest and dividend receivable	425,197	386,930	200,805
Trade Receivable - Due from Broker	88,410	-	-
Total plan assets	**$ 173,728,783**	**$ 156,300,342**	**$ 156,183,218**
Liabilities:			
Trade Payable - Due to Broker	$ 93,727	$ -	$ -
Net Position Restricted for Pensions	**$ 173,635,056**	**$ 156,300,342**	**$ 156,183,218**
Changes in net position:			
Net investment income (loss)	$ 18,039,507	$ 948,996	$ 3,614,695
Employer contributions	9,573,671	9,423,081	9,670,794
Retiree benefits paid	(9,573,671)	(9,423,081)	(9,670,794)
Administrative fees	(704,793)	(831,872)	(1,152,927)
Net change in net position	**$ 17,334,714**	**$ 117,124**	**$ 2,461,768**

Investment Objectives and Asset Allocation

The Lansing Board of Water and Light Retiree Benefit Plan and Trust (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 taken into account the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance. Consistent with this, the BWL has determined that the investment objective is income and growth. This investment objective is a balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long term.

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

U.S. Equities	45%
Non-U.S. Equities	10%
Global Fixed Income	15%
Commercial Real Estate	20%
Alternative Investments	10%

Investment Results

The fiscal year ended June 30, 2017 saw a net investment income, net of administrative expenses, of $17.3 million. We believe this performance is in line with the overall level of recovery experienced by the stock and bond markets.

Future Events

The BWL is funding its other postemployment benefits (OPEBs) and is intending to meet its annual required contributions (ARC).

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, you may write to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Statement of Trust Net Position

	As of June 30	
	2017	2016
Assets		
Investments - fair value:		
Cash and money market trust funds	$ 2,927,461	$ 13,498,404
Fixed income securities	33,706,611	28,725,054
U.S. government obligations	29,051,025	21,458,288
Equities	54,440,986	77,022,878
Mutual funds	53,089,093	15,208,788
Total investments at fair value	173,215,176	155,913,412
Investment interest and dividend receivable	425,197	386,930
Trade receivable - due from broker	88,410	-
Total assets	173,728,783	156,300,342
Liabilities		
Trade payable - due to broker	93,727	-
Net position restricted for retiree benefits	**$ 173,635,056**	**$ 156,300,342**

See Notes to Financial Statements.

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Statement of Changes in Trust Net Position

	For the Year Ended June 30	
	2017	2016
Additions		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ 13,724,335	$ (2,293,242)
Interest and dividend income	4,315,172	3,242,238
Total investment income	18,039,507	948,996
Employer contributions	9,573,671	9,423,081
Total increase	27,613,178	10,372,077
Deductions		
Retiree benefits paid	9,573,671	9,423,081
Administrative expenses	704,793	831,872
Total decrease	10,278,464	10,254,953
Net Increase in Net Position	17,334,714	117,124
Net Position		
Beginning of year	156,300,342	156,183,218
End of year	**$ 173,635,056**	**$ 156,300,342**

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Board of Water and Light - City of Lansing, Michigan (BWL) sponsors the Retiree Benefit Plan and Trust (the "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 Government Accounting Standards Board.

Basis of Accounting

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

In June 2015, the GASB issued statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This standard was implemented effective July 1, 2016.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

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

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 agreement for a more complete description of the Plan's provisions.

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

The Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. 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 healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 713 participants eligible to receive benefits at June 30, 2017 and 715 participants eligible at June 30, 2016.

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 relevant sections of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Trustees - Each voting member of the Lansing Board of Water and Light board of commissioners is a trustee during the term of office as a commissioner. The trustees have appointed 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 trust net position are equal to the retiree benefits paid because the actuarial annual required contribution (ARC) for the year ended June 30, 2017 was less than the pay-as-you-go amount. During the years ended June 30, 2017 and 2016, the cost to BWL of maintaining the Retiree Benefit Plan was $9,573,671 and $9,423,081 of which, respectively, was incurred as retiree benefit payments. The Lansing Board of Water and Light 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 ARC 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, 2017 and 2016, the contribution rates of the employers were 17.6 percent and 17.5 percent of covered-employee payroll, respectively.

Note 2 – Description of the Plan (Continued)

Participation – Participation in this Plan is determined in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2017, there were 713 active participants (not eligible to receive benefits), 76 disabled participants, 453 retired participants, 487 active spouses (not eligible to receive benefits), and 129 surviving spouses participating in the Plan. At June 30, 2016, there were 715 active participants (not eligible to receive benefits), 78 disabled participants, 431 retired participants, 489 active spouses (not eligible to receive benefits), and 138 surviving spouses participating in the Plan.

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

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

Note 3 - Cash, Investments, and Fair Disclosure

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

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

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

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 Board of Water and Light and are therefore not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. At June 30, 2017, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 29,051,025	13.98 years
Fixed income securities	33,706,611	13.32 years
Money market trust funds	2,927,457	Less than 1 year
Portfolio weighted average maturity		13.63 years

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

At June 30, 2016 the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 21,458,288	13.43 years
Fixed income securities	28,725,054	13.07 years
Money market trust funds	12,699,502	Less than 1 year
Portfolio weighted average maturity		13.33 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, 2017, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	$ 29,051,025	Not rated	Not rated
Fixed income securities	2,311,039	AAA	S&P
Fixed income securities	11,990,156	AA+	S&P
Fixed income securities	1,056,764	AA	S&P
Fixed income securities	1,171,286	AA-	S&P
Fixed income securities	687,043	A+	S&P
Fixed income securities	3,895,779	A	S&P
Fixed income securities	2,721,066	A-	S&P
Fixed income securities	5,995,197	BBB+	S&P
Fixed income securities	2,578,080	BBB	S&P
Fixed income securities	1,300,201	BBB-	S&P
Money market trust funds	2,927,457	Not rated	Not rated

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

As of June 30, 2016, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	$ 21,458,288	Not rated	Not rated
Fixed income securities	1,536,663	AAA	S&P
Fixed income securities	9,716,782	AA+	S&P
Fixed income securities	556,160	AA	S&P
Fixed income securities	440,709	AA-	S&P
Fixed income securities	916,021	A+	S&P
Fixed income securities	3,225,558	A	S&P
Fixed income securities	2,646,456	A-	S&P
Fixed income securities	5,973,642	BBB+	S&P
Fixed income securities	2,435,831	BBB	S&P
Fixed income securities	1,190,777	BBB-	S&P
Fixed income securities	37,450	BB	S&P
Fixed income securities	49,005	BB-	S&P
Money market trust funds	12,699,502	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.

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, 2017:

Asset Class	Target Allocation
U.S. Equities	45%
Non-U.S. Equities	10%
Global Fixed Income	15%
Commercial Real Estate	20%
Alternative Investments	10%

Rate of Return - For the years ended June 30, 2017 and 2016, the annual money-weighted rate of return on investments, net of investment expense, was 10.01% and 0.32%, 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 of BWL

Net OPEB Liability of BWL - In the current year, the Plan implemented GASB Statement No. 74. The following disclosures relate to the new standard. The components of the net OPEB liability for BWL at June 30, 2017 and 2016, were as follows:

	June 30, 2017
Total OPEB Liability	$ 205,624,392
Plan fiduciary net position	(173,635,056)
BWL's net OPEB liability	$ 31,989,336
Plan fiduciary net position as a percentage of the total OPEB Liability	84.44%

Note 6 – Net OPEB Liability of BWL (Continued)

Actuarial assumptions - The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, 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	9.0% for 2018, decreasing 0.5% per year to an ultimate rate of 5.0% in 2026 and later years

Mortality rates were based on the RPH-2016 Total Dataset Mortality Table fully generational using Scale MP-2016 (RPH-2016 table is created based on RPH-2014 Total Dataset Mortality Table with 8 years of MP-2014 mortality improvement backed out, projected to 2016 using MP-2016 improvement).

Best actuarial practices call for a periodic assumption review and BWL has completed an experience study in 2017. Nyhart recommends BWL to complete another experience study prior to the fiscal year ending June 30, 2022 valuation.

The long-term expected rate of return is 7.50%. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are 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 this year's valuation is 7.50% with the expectation that BWL will continue contributing the Actuarially Determined Contribution and/or paying for the pay-go cost.

Note 6 – Net OPEB Liability of BWL (Continued)

Asset Class	Long-Term Expected Real Rate of Return
S&P Municipal Bond 20-year High Grade Rate Index	2.71%
Fidelity 20-year Go Municipal Bond Index	2.92%
Actual Discount Rate Used	7.50%

Discount Rate – The discount rate used to measure the total OPEB liability was 7.5%. 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 to changes in the discount rate – The following presents the net OPEB liability of BWL, as well as what BWL's net OPEB liability 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):

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability	$57,428,880	$31,989,336	$10,788,919

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of BWL, as well as what BWL's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (10.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$9,860,495	$31,989,336	$58,978,628

Note 6 – Net OPEB Liability of BWL (Continued)

The following disclosures relate to the year ended June 30, 2016:

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

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed
6/30/2014	$ 9,202	$ 9,268	101%
6/30/2015	5,765	9,671	168%
6/30/2016	5,828	9,423	162%

Funded Status and Funding Progress – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost at June 30, 2016 and 2015 include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected healthcare trend rates ranging from 3.0 percent to 9.0 percent, (c) amortization method level dollar over an open 30-year period, and (d) RP-2014 mortality table fully generational using scale MP-2015 and RP-2014 Mortality Table fully generational using scale MP-2014, respectively.

Note 6 - Net OPEB Liability of BWL (Continued)

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

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	AAV as a Percentage of AAL
2/28/2014	$ 148,307	$ 194,365	$ 46,058	76.30%
2/28/2015	157,565	200,196	42,631	78.71%
2/29/2016	145,274	205,215	59,941	70.79%

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

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

The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used range from 3.0 to 9.0 percent for the year ended June 30, 2016, and 5.0 to 9.0 percent for the year ended June 30, 2015.

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:

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, 2017 and 2016:

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

Note 7 – Fair Value Measurements (Continued)

Fixed income securities, U.S. government obligations, and equities: 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.

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, 2017 and 2016:

	June 30, 2017			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ 4	$ 2,927,457	$ –	$ 2,927,461
Fixed income securities	–	33,706,611	–	33,706,611
U.S. government obligations	–	29,051,025	–	29,051,025
Equities	54,440,986	–	–	54,440,986
Mutual funds	–	53,089,093	–	53,089,093
Total	$ 54,440,990	$ 118,774,186	$ –	$ 173,215,176

Note 7 – Fair Value Measurements (Continued)

	June 30, 2016			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ 798,902	$ 12,699,502	$ –	$ 13,498,404
Fixed income securities	–	28,725,054	–	28,725,054
U.S. government obligations	–	21,458,288	–	21,458,288
Equities	77,022,878	–	–	77,022,878
Mutual funds	–	15,208,788	–	15,208,788
Total	$ 77,821,780	$ 78,091,632	$ –	$ 155,913,412

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 Trust 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 Supplemental Information

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

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

	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*	2009*	2008*
Total OPEB Liability										
Service cost	$ 3,130	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	14,226	-	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	5,281	-	-	-	-	-	-	-	-	-
Changes in assumptions	(2,027)	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(9,574)	-	-	-	-	-	-	-	-	-
Net Change in Total OPEB Liability	11,036	-	-	-	-	-	-	-	-	-
Total OPEB Liability - Beginning of year	194,588	-	-	-	-	-	-	-	-	-
Total OPEB Liability - End of year	205,624	-	-	-	-	-	-	-	-	-
Trust Net Position										
Contributions - Employer	9,574	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	18,040	-	-	-	-	-	-	-	-	-
Administrative expenses	(705)	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(9,574)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	17,335	-	-	-	-	-	-	-	-	-
Trust fiduciary net position - Beginning of year	156,300	-	-	-	-	-	-	-	-	-
Trust fiduciary net position - End of year	173,635	-	-	-	-	-	-	-	-	-
BWL Net OPEB Liability - Ending	**$ 31,989**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Trust Fiduciary Net Position as a % of Total OPEB Liability	84.44%	- %	- %	- %	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	54,383	-	-	-	-	-	-	-	-	-
BWL's Net OPEB Liability as a % of Covered Employee Payroll	58.82%	- %	- %	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2008 - 2016 is not available and this schedule will be presented on a prospective basis.

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

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

	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*	2009*	2008*
Total OPEB liability	$ 205,624	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
OPEB fiduciary net position	173,635									
Net OPEB liability	31,989	-	-	-	-	-	-	-	-	-
OPEB fiduciary net position as a % of total OPEB liability	84.4%	-	-	-	-	-	-	-	-	-
Covered Employee Payroll	54,383									
Net OPEB liability as a percentage of covered employee payroll	58.8%	-	-	-	-	-	-	-	-	-

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2008 - 2016 is not available and this schedule will be presented on a prospective basis.

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

Fiscal Year Ended	Employer Contributions Required	Employer Contributions Actual	Difference of Required to Actual Contributions	Covered Employee Payroll	Percentage of Actual Contributions to Covered Payroll
6/30/2008*	$ 14,797	$ 14,962	$ 165	$ -	-
6/30/2009*	18,132	17,866	(266)	-	-
6/30/2010*	21,291	21,318	27	-	-
6/30/2011	17,300	17,236	(64)	47,213	37%
6/30/2012	15,744	15,854	110	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%

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2008 - 2010 is not available and this schedule will be presented on a prospective basis.

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

	2017	2016	2015*	2014*	2013*	2012*	2011*	2010*	2009*	2008*
Annual money-weighted rate of return, net of investment expense	10.01%	0.32%	- %	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2008 - 2015 is not available and this schedule will be presented on a prospective basis.

Required Supplemental Information (Unaudited)
Schedule of Funding Progress
(in thousands)

Valuation Date	Actuarial Asset Value	AAL	UAAL	Funded Ratio
2/29/2008	$ 57,246	$ 236,102	$ 178,856	24.25%
2/28/2009	45,320	256,888	211,568	17.64%
2/28/2010	76,117	252,142	176,025	30.19%
2/28/2011	100,604	260,097	159,493	38.68%
2/28/2012	110,029	245,418	135,389	44.83%
2/28/2013	123,195	207,864	84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,564	200,196	42,632	78.70%
2/29/2016	145,274	205,215	59,941	70.79%

AAL – Actuarial accrued liability (projected unit credit accrued liability)
UAAL – Unfunded actuarial accrued liability and negative UAAL indicate a funding excess.

NOTE: This schedule was required by GASB Statement No. 43 which was superseded by Statement No. 74, therefore, information beyond the actuarial valuation for fiscal year 2016 is not applicable or provided.

Actuarial valuation information relative to the determination of contributions:

Valuation date	June 30, 2017

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	30 years
Inflation	3.0 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+
Investment rate of return	7.5 percent per year compounded annually
Mortality	RPH-2016 Total Dataset Mortality Table fully generational with MP-2016 Improvement Scale

PROPOSED RESOLUTION

Fiscal Year 2017 Audited Financial Statements
of the Enterprise Fund and Pension Fiduciary Funds

RESOLVED, that the fiscal year 2017 Audited Financial Statements of the Board of Water and Light have been reviewed and are hereby accepted as presented.

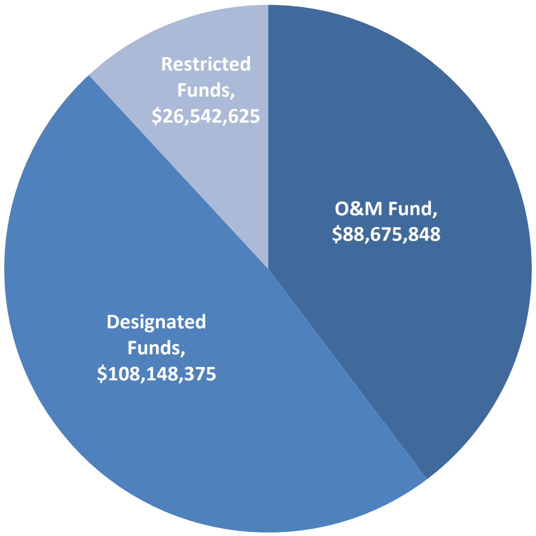
FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2017 Audited Financial Statements of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2017.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2017 Audited Financial Statements of the Board of Water and Light with the City of Lansing.

Financial Summary - July 2017

Hometown People. Hometown Power.

Cash



Total Cash: $223,366,849

	Month End	Target
Days Cash on Hand	209	Minimum 150
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage - Rating Agencies	2.40	Minimum 2.00
Debt Service Coverage - Bond Covenants *	2.88	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies targets represent Moody's expected performance for a Aa3 rated electric utility with generation.

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	$ 28,356,909	$ 28,269,564	87,345	0%	$ 32,120,147	$ (3,763,238)	-12%
Wholesale	$ 2,549,028	$ 2,602,755	(53,728)	-2%	$ 4,552,677	$ (2,003,649)	-44%
Total Revenue	$ 30,905,937	$ 30,872,320	33,617	0%	$ 36,672,825	$ (5,766,887)	-16%
Operating Expenses	$ 23,262,642	$ 26,139,029	(2,876,387)	-11%	$ 25,519,795	$ (2,257,153)	-9%
Non Operating Income/(Expense)	$ (2,950,388)	$ (2,771,202)	(179,187)	6%	$ (2,895,084)	$ (55,304)	2%
Net Income	$ 4,692,906	$ 1,962,088	2,730,817	139%	$ 8,257,946	$ (3,565,040)	-43%

FY 2018 Pojected Net Income	$ 8,895,984

Budget Status YTD

O&M Budget YTD (excluding fuel)

	Approved Budget	Actual YTD	YTD Budget	Difference	%
	$ 146,136,282	$ 9,526,554	$ 11,242,514	(1,715,960)	-15%
% of Approved Budget		7%	8%		

Capital Budget YTD

	Approved Budget	Actual YTD	YTD Budget	Difference	%
	$ 139,515,676	$ 1,936,295	$ 1,458,985	477,310	33%
% of Approved Budget		1%	1%		

Return on Assets

Actual YTD	YTD Budget	Target
0.81%	0.43%	4.78%

Debt Sevice Coverage - Rating Agencies - (Projected Net Income + Depreciation Expense + Interest Expense + Fixed Obligations#) / (Debt Service + Fixed Obligations)

#Fixed obligations represent Belle River Debt Service

Return on Assets - Actual YTD Net Income increased for interest expense / Net Fixed Assets + Inventory

Financial Summary - July 2017

Hometown People. Hometown Power.

Ratios

Operating Ratio

				APPA Median
O&M Expense	$ 19,623,726	=	0.63	0.71
Revenue	$ 30,905,937			

Measures the proportion of revenues to cover the operations and maintenance costs

Current Ratio

				APPA Median
Current Assets	$ 210,331,916	=	4.94	1.98
Current Liabilities	$ 42,602,673			

Measures whether current assets are sufficient to pay current liabilities within one year

Debt to Total Assets

				APPA Median
LT Debt + Accrued Liabilities	$ 391,667,459	=	0.39	0.53
Total Assets	$ 996,779,979			

Measures the ability to meet its current and long-term liabilities based on the availability of assets

Days' Sales Outstanding

				Prior Year
Accounts Receivable	$ 24,169,579	=	0.84	27
Average Sales	$ 28,861,245		X 31	
			26	Days

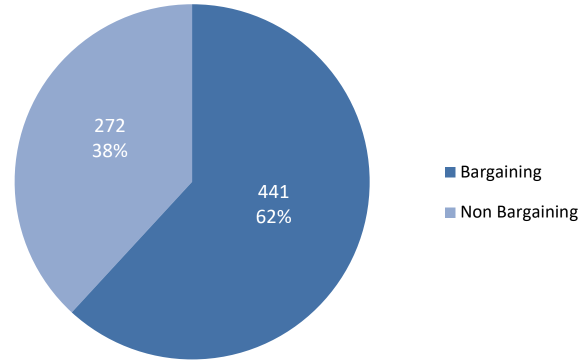
Bad Debt

APPA Median 0.27%

Actual YTD	YTD Budget	Over/(Under)	% of Revenue
$268,837	$81,686	$187,151	0.87%

Employee Data

Employee Count YTD	713
Budget YTD	756
Over (Under) #	(43)
Over (Under) %	-5.7%
Prior YTD	712
Difference	1
Temporary Employee YTD	40



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	$ 4,309,285	$ 4,546,629	$ (237,344)	-5.2%	$ 4,242,947	$ 66,338	1.6%
Overtime	$ 485,749	$ 468,266	$ 17,483	3.7%	$ 824,372	$ (338,623)	-41.1%
Total	$ 4,795,034	$ 5,014,895	$ (219,861)	-4.4%	$ 5,067,319	$ (272,285)	-5.4%
Total Hours Worked	94,174				101,992		
Labor/Hours Worked	$ 50.92				$ 49.68		

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	$ 1,460,332	$ 1,267,431	$ 192,900
RX	$ 214,081	$ 387,068	$ (172,987)
Dental	$ 102,468	$ 103,166	$ (698)
Life	$ 29,043	$ 25,750	$ 3,293
FICA	$ 410,668	$ 390,106	$ 20,562
Other	$ (80,792)	$ 73,832	$ (154,624)
Total	$ 2,135,800	$ 2,247,354	$ (111,554)

FY 2018 – 2023 Financial Plan

Finance Committee Meeting

September 19, 2017

Overview

- Six Year Operating Forecast
  - Financial Goals
  - Return on Assets
  - Financial Assumptions
  - Financial Forecast
  - Financial Metrics by Utility
- Six Year Capital Forecast
  - Total Capital Forecast
  - Major Capital Projects
- Next Steps

Hometown People. Hometown Power.

FY 2018 – 2023 Financial Plan

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The BWL has established the following financial goals.

- Maintain High Credit Quality
  - The BWL is currently rated AA- by S&P and Aa3 by Moody's
- Ensure Adequate Liquidity
  - The BWL should have the ability to meet near term obligations when due
  - The BWL has targeted the following financial metrics
    - Days Cash on Hand Minimum Target: 150 Days
    - Debt Service Coverage Minimum Target: 2.00
    - Board Approved Return on Assets: 4.78%
- Maintain Rate Competitiveness

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FY 2018 – 2023 Financial Plan

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Return on Assets

- An adequate return on assets is essential to municipal utilities.
- It ensures that current rate payers are not "kicking the can down the road" or deferring cost recovery to future generations.
- A proper return on assets recovers two main items:
  - Interest Expense
  - Inflationary increase of infrastructure replacement costs
- The BWL has established a return on assets of 4.78% beginning in FY 2018, as approved by the board of commissioners.

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FY 2018 – 2023 Financial Plan

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<u>The following assumptions have been considered for the forecast.</u>

- Projected Sales
  - Electric – Retail sales remain nearly flat due to energy efficiency offsetting underlying growth. Wholesale sales experience an increase beginning in FY 2021 due to added capacity from the new combined cycle plant.
  - Water – Retail sales decrease slightly due to efficiency. Wholesale sales increase slightly as a result of development in surrounding areas.
  - Steam – Sales are held constant.
  - Chilled Water – Sales are held constant.
- Operating expenses have been forecasted to increase at an annual 2.4% inflationary rate* from FY 2018 – FY 2023.

*Source – The Budget and Economic Outlook: 2017 to 2027 – Congress of the United States Congressional Budget Office

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FY 2018 - 2023 Financial Forecast

	2018	2019	2020	2021	2022	2023
Operating Revenue	$ 355,444,270	$ 369,749,080	$ 387,002,461	$ 432,061,855	$ 446,976,392	$ 457,550,209
Operating Expenses						
Fuel and Purchased Power	$ 121,190,690	$ 115,463,923	$ 121,181,777	$ 151,768,302	$ 154,855,799	$ 154,841,420
Depreciation	$ 45,879,092	$ 48,267,000	$ 50,074,577	$ 57,207,266	$ 67,683,860	$ 70,437,462
Other Operating Expenses	$ 146,136,282	$ 148,446,586	$ 150,837,089	$ 152,051,689	$ 154,028,307	$ 156,487,594
Total Operating Expenses	$ 313,206,064	$ 312,177,509	$ 322,093,443	$ 361,027,257	$ 376,567,966	$ 381,766,476
Total Operating Income	$ 42,238,206	$ 57,571,571	$ 64,909,018	$ 71,034,598	$ 70,408,426	$ 75,783,733
Non Operating Expenses						
Interest Expense	$ 13,556,618	$ 13,342,155	$ 13,442,725	$ 24,075,724	$ 34,644,653	$ 36,173,421
Other Non Operating Expenses	$ 19,785,604	$ 19,169,076	$ 20,171,657	$ 21,569,685	$ 21,676,655	$ 22,019,868
Total Non Operating Expenses	$ 33,342,222	$ 32,511,231	$ 33,614,382	$ 45,645,409	$ 56,321,308	$ 58,193,289
Total Net Income	**$ 8,895,984**	**$ 25,060,340**	**$ 31,294,636**	**$ 25,389,189**	**$ 14,087,118**	**$ 17,590,444**

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FY 2018 - 2023 Cash Flow Forecast

	2018	2019	2020	2021	2022	2023
Beginning Operating Cash	$ 80,926,058	$ 81,417,170	$ 82,976,419	$ 84,377,434	$ 85,932,046	$ 87,375,965
Sources of Cash						
Net Income	$ 8,895,984	$ 25,060,340	$ 31,294,636	$ 25,389,189	$ 14,087,118	$ 17,590,444
Depreciation	$ 45,879,092	$ 48,267,000	$ 50,074,577	$ 57,207,266	$ 67,683,860	$ 70,437,462
Loss on Disposal of Assets	$ 1,914,055	$ 1,160,223	$ 1,160,223	$ 1,160,223	$ 1,160,223	$ 1,160,223
Borrowing*	$ 50,000,000	$ 214,470,235	$ 224,809,152	$ 9,309,288	$ -	$ -
Withdrawal from Reserve	$ 34,000,000	$ (4,000,000)	$ (10,000,000)	$ (8,000,000)	$ (7,000,000)	$ (13,000,000)
Fuel Cost Undercollection	$ 2,057,681	$ -	$ -	$ -	$ -	$ -
Net Environmental	$ 4,610,072	$ 77,087	$ (369,444)	$ (407,663)	$ (551,250)	$ (518,250)
Pipeline Refund	$ 2,845,000	$ 2,845,000	$ -	$ -	$ -	$ -
Total Sources of Cash	$ 150,201,884	$ 287,879,885	$ 296,969,144	$ 84,658,303	$ 75,379,951	$ 75,669,879
Uses of Cash						
Debt Principal	$ (9,104,609)	$ (7,606,231)	$ (7,944,150)	$ (11,858,066)	$ (12,420,673)	$ (12,980,414)
Capital Expenditures	$ (139,515,676)	$ (252,310,429)	$ (285,900,365)	$ (69,413,037)	$ (60,421,339)	$ (60,045,859)
Renewable Energy & EO Plans	$ (834,035)	$ (1,367,625)	$ (1,474,290)	$ (1,583,264)	$ (844,697)	$ -
Other Uses of Cash	$ (253,454)	$ (25,036,349)	$ (249,324)	$ (249,324)	$ (249,324)	$ (249,324)
Total Uses of Cash	$ (149,707,774)	$ (286,320,634)	$ (295,568,129)	$ (83,103,691)	$ (73,936,033)	$ (73,275,597)
Net Cash Increase/(Decrease)	$ 494,111	$ 1,559,251	$ 1,401,015	$ 1,554,612	$ 1,443,918	$ 2,394,282
Ending Operating Cash	**$ 81,420,169**	**$ 82,976,421**	**$ 84,377,434**	**$ 85,932,046**	**$ 87,375,964**	**$ 89,770,247**

*This forecast is PRELIMINARY. Site studies and plant design are still underway.

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FY 2018 - FY 2023 Financial Metrics by Utility

Net Income (Loss):	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Electric	$ 6,982,691	$ 21,315,182	$ 25,927,136	$ 18,720,997	$ 6,353,701	$ 7,351,987
Water	$ 1,310,986	$ 2,753,008	$ 4,058,130	$ 4,462,118	$ 6,112,649	$ 8,241,070
Steam	$ (326,026)	$ 16,150	$ 296,486	$ 1,538,558	$ 858,678	$ 1,286,499
Chilled Water	$ 928,333	$ 975,998	$ 1,012,884	$ 667,516	$ 762,090	$ 710,887
All Utilities Total	**$ 8,895,984**	**$ 25,060,338**	**$ 31,294,636**	**$ 25,389,189**	**$ 14,087,118**	**$ 17,590,443**
Days Cash on Hand Minimum Target: 150 Days | Debt Service Coverage Minimum Target: 2.00 | Board Approved Return on Assets as of FY 2018: 4.78%						
Return on Assets	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Electric	3.03%	4.18%	3.68%	4.19%	3.91%	4.25%
Water	1.38%	1.88%	2.29%	2.30%	3.02%	3.85%
Steam	2.25%	2.66%	3.03%	3.01%	3.50%	4.32%
Chilled Water	5.73%	5.15%	4.40%	3.44%	3.64%	3.36%
All Utilities Total	2.60%	3.58%	3.40%	3.75%	3.71%	4.15%
Days Cash on Hand	**174**	**181**	**189**	**179**	**185**	**199**
Debt Service Coverage	**2.24**	**3.08**	**3.32**	**2.20**	**2.38**	**2.50**
Proposed Rate Increase:	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Electric	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water	5.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Steam	5.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Chilled Water	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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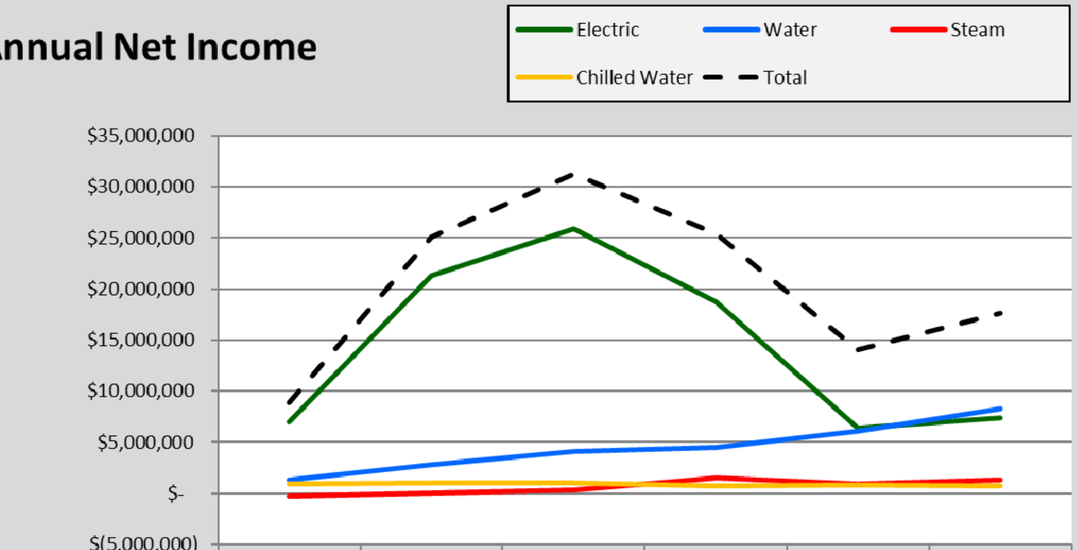
Annual Net Income



	2018	2019	2020	2021	2022	2023
Electric	$6,982,691	$21,315,182	$25,927,136	$18,720,997	$6,353,701	$7,351,987
Water	$1,310,986	$2,753,008	$4,058,130	$4,462,118	$6,112,649	$8,241,070
Steam	$(326,026)	$16,150	$296,486	$1,538,558	$858,678	$1,286,499
Chilled Water	$928,333	$975,998	$1,012,884	$667,516	$762,090	$710,887
Total	$8,895,984	$25,060,338	$31,294,636	$25,389,189	$14,087,118	$17,590,443

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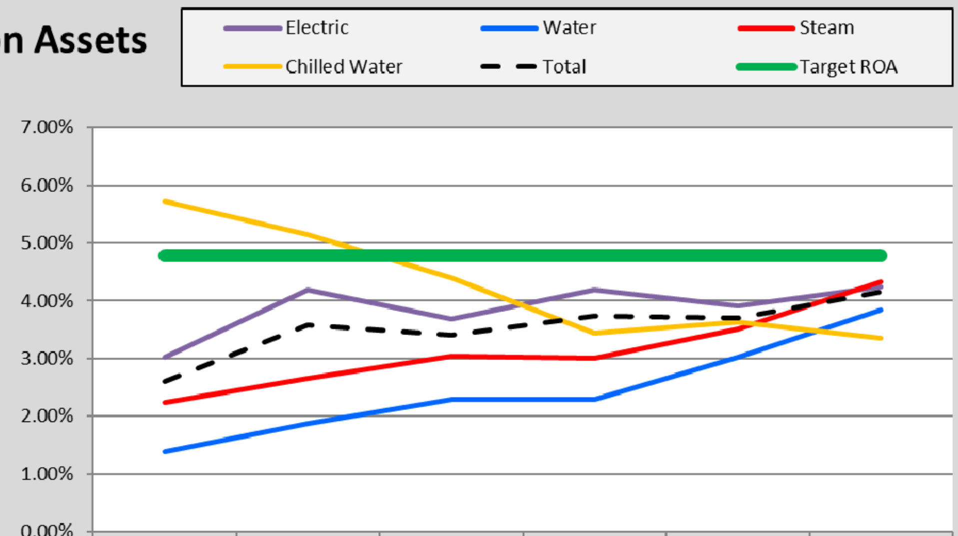
Return on Assets



	2018	2019	2020	2021	2022	2023
Electric	3.03%	4.18%	3.68%	4.19%	3.91%	4.25%
Water	1.38%	1.88%	2.29%	2.30%	3.02%	3.85%
Steam	2.25%	2.66%	3.03%	3.01%	3.50%	4.32%
Chilled Water	5.73%	5.15%	4.40%	3.44%	3.64%	3.36%
Total	2.60%	3.58%	3.40%	3.75%	3.71%	4.15%
Target ROA	4.78%	4.78%	4.78%	4.78%	4.78%	4.78%

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FY 2018 - 2023 Capital Budget
Six Year Forecast by Utility and Location

Dollars in (000's)							
UTILITY	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Six Year Total**
ELECTRIC	$ 54,331	$ 24,499	$ 16,702	$ 30,281	$ 35,738	$ 32,796	$ 194,347
WATER	$ 7,547	$ 8,346	$ 7,815	$ 7,544	$ 8,339	$ 7,702	$ 47,293
STEAM	$ 8,730	$ 5,401	$ 5,133	$ 5,449	$ 2,941	$ 2,971	$ 30,625
CHILLED WATER	$ 450	$ 1,894	$ 2,411	$ 11	$ 11	$ 11	$ 4,788
COMMON	$ 18,457	$ 22,652	$ 29,030	$ 16,819	$ 13,392	$ 16,566	$ 116,916
INTERNALLY FUNDED CAPITAL BUDGET *	$ 89,516	$ 62,792	$ 61,091	$ 60,104	$ 60,421	$ 60,046	$ 393,970
NEW NGCC PLANT **	$ 50,000	$ 189,518	$ 224,809	$ 9,309	$ -	$ -	$ 473,636
TOTAL CAPITAL BUDGET	**$ 139,516**	**$ 252,310**	**$ 285,900**	**$ 69,413**	**$ 60,421**	**$ 60,046**	**$ 867,606**
LOCATION	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Six Year Total**
ECKERT	$ 185	$ 148	$ -	$ -	$ -	$ -	$ 333
ERICKSON	$ 199	$ 1,078	$ 1,598	$ 773	$ 862	$ 702	$ 5,212
REO PLANT	$ 3,000	$ 2,715	$ 2,500	$ 2,500	$ -	$ -	$ 10,715
T&D	$ 64,583	$ 31,924	$ 22,852	$ 37,453	$ 43,849	$ 41,715	$ 242,376
DYE/CEDAR	$ 2,327	$ 1,900	$ 2,860	$ 2,559	$ 2,319	$ 1,062	$ 13,026
CHILLER PLANT	$ 440	$ 1,884	$ 2,401	$ -	$ -	$ -	$ 4,724
MOORE'S PARK	$ 463	$ 935	$ -	$ -	$ -	$ -	$ 1,398
NEW NGCC PLANT **	$ 50,000	$ 189,518	$ 224,809	$ 9,309	$ -	$ -	$ 473,636
OTHER	$ 18,319	$ 22,210	$ 28,880	$ 16,819	$ 13,391	$ 16,566	$ 116,185
TOTAL CAPITAL BUDGET	**$ 139,516**	**$ 252,310**	**$ 285,900**	**$ 69,413**	**$ 60,421**	**$ 60,046**	**$ 867,606**

* This total DOES NOT include the New NGCC Plant

**** This forecast is PRELIMINARY. Site studies and plant design are still underway.**

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FY 2018 - 2023 Capital Budget - Major Projects/Programs

	Planned Projects	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Forecast Total****
*	NGCC Power Plant *****	50,000,000	189,517,702	224,809,152	9,309,288	0	0	473,636,142
**	Smart Grid Implementation	9,400,000	9,450,000	9,100,000	0	0	0	27,950,000
*	Central Substation	14,339,000	7,445,000	0	0	0	0	21,784,000
*	Erickson to Willow 138kV Line Extension	18,286,676	0	0	0	0	0	18,286,676
	Wise Substation double Ending	0	0	500,000	4,000,000	8,878,000	0	13,378,000
	LGR Substation - Construct a New 138kV Sub	0	0	500,000	8,428,000	3,612,000	0	12,540,000
	Rundle (South) Substation - Construct a New 138kV Sub	0	0	0	1,350,000	3,799,997	6,000,000	11,149,997
**	IT - CI Replacement	0	4,500,000	6,500,000	0	0	0	11,000,000
	Rundle (South) Reinforcement	0	0	0	500,000	1,500,000	6,700,000	8,700,000
	Electric Distribution - Distribution Automation Project	0	1,750,000	1,250,000	1,000,000	1,000,000	1,000,000	6,000,000
	High Pressure Steam Parallel Supply	5,179,000	0	0	0	0	0	5,179,000
*	REO - Rental Standby Steam Boilers	3,000,000	2,040,000	0	0	0	0	5,040,000
	REO - CTG Hot Section Replacement	0	0	2,500,000	2,500,000	0	0	5,000,000
	Annual Projects * **	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**Forecast Total**** **
	Electric	2,000,000	2,046,000	2,093,058	2,141,198	2,190,446	2,240,826	53,696,037
	Water	2,364,000	1,710,000	1,505,000	2,380,000	2,570,000	2,570,000	31,483,906
	Steam	210,125	215,378	220,762	226,281	231,938	237,736	5,615,149
	Common	894,000	914,562	935,597	957,116	979,129	1,001,649	22,413,060

* These projects support the retirement of Eckert.
** These projects represent 2 of the 5 major BSMART projects.
*** Annual projects have some level of spending each year.
**** The forecast total represents 6 year spending. (Prior Years' spending is not reflected in this total)
***** **This forecast is PRELIMINARY. Site studies and plant design are still underway.**

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- Finance Committee to accept, as presented, the Operating and Capital Forecasts for FY 2018 – 2023 and recommend for Board of Commissioners' approval on September 26, 2017.
- Board of Commissioners to adopt, as presented, the Operating and Capital Forecasts for FY 2018 – 2023 and submit the Capital Forecast to the Mayor prior to October 1, 2017.
  - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1.

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PROPOSED RESOLUTION

Fiscal Year 2018-2023 Capital Forecast

RESOLVED, that the forecast for capital expenditures for the Fiscal Years 2018-2023 is hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to submit a copy of the Fiscal Year 2018-2023 Capital Forecast of the Board of Water and Light to the Mayor of the City of Lansing prior to October 1, 2017 in accordance with the Lansing City Charter.

Rate Strategy Recommendations
FY 2018-2020

Finance Committee Meeting

September 19, 2017

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Rate Strategy Timeline

- City clerk filing of proposed tariffs by October 16, 2017
  - The city clerk filing is due 45 days prior to public hearing.
- Publication of Notice by November 15, 2017
  - The publication of notice must be at least 14 days prior to the public hearing.
- Public hearing on November 30, 2017
  - The public hearing must be at least 30 days prior to rate implementation.
- Proposed Special Board meeting for final tariff approval on December 5, 2017
- Rate Strategy Implementation on February 1, 2018

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BWL Rate Making Principles

- In accordance with Resolution 2000-1-3, the board has established the following rate making principles.

1. Rates shall be established at a level that will enable the Board of Water and Light (BWL) to meet its mission of serving the Greater Lansing area by providing high quality utility services, reliably, at the lowest reasonable cost
2. The BWL shall recover the costs of serving its customers through its rates. Rates and charges should be sufficient to cover all O&M expenses, payment to the city, depreciation expense, and a reasonable return on the BWL's capital investment.
3. The return on the BWL's capital investment shall be sufficient to provide cash flow for debt service, bond coverage, and capital improvements.
4. Those who benefit from the BWL's services should pay for those services.
5. Rates for each class of customer should, as nearly as practicable, reflect the cost of providing service to that class.
6. Each utility managed by the BWL should be self-supporting. No utility should subsidize any other utility.
7. Rates should be reviewed annually and adjusted as deemed necessary to maintain the financial integrity of the BWL and minimize the financial impact on our customers.
8. Rates shall be established and implemented according to Lansing City Charter. Section 5-205 refers to the BWL's authority to set just and reasonable rates and defines the public hearing process.

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BWL
Strategic Plan 2016-2020

Strategies & Objectives

- Strategy 1, Objective 3: Provide customer-focused rates
  - Review and revise rate structures to response to changing customer composition and needs, such as time-of-use rates
- Strategy 2, Objective 1: Be a catalyst for economic and community development
  - Keep rates competitive
  - Serve as a partner with regional economic development agencies to promote economic growth in the Greater Lansing community
- Strategy 6, Objective 1: Practice good financial stewardship
  - Develop a financial plan that includes a rate strategy that provides financing for the BWL's capital program, replacement generation needs, while maintaining competitive rates
  - Maintain an above average bond rating for municipal utilities
  - Identify cost savings through process improvement initiatives and return on investments with minimal impact on operations or employees
  - Commit to reviewing and consistently achieving target rate of return

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Rate Strategy Summary

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Financial Stewardship

Maintain Above Average Bond Rating

Key Metrics with No Rate Increases

- As our commitment to being financial stewards of our customers and community, BWL is dedicated to maintaining an above average bond rating.
- Currently, BWL is rated Aa3 by Moody's and AA- by S&P
- Key metrics for high bond ratings:
  - Debt Service Coverage
  - Days Cash on Hand

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Financial Stewardship

Maintain Above Average Bond Rating

Key Metrics with No Rate Increases

Six Year Forecast: FY 2018 - FY 2023						
Net Income and Financial Metrics WITHOUT Proposed Rate Increases						
Net Income (Loss):	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Electric	$ 4,861,479	$ 13,927,046	$ 13,091,682	$ 158,921	$ (18,007,203)	$ (22,992,883)
Water	$ 587,673	$ (84,234)	$ (1,427,978)	$ (3,853,501)	$ (5,225,948)	$ (6,327,704)
Steam	$ (633,468)	$ (1,013,350)	$ (1,587,302)	$ (1,236,847)	$ (2,850,251)	$ (3,402,649)
Chilled Water	$ 928,333	$ 975,999	$ 1,012,884	$ 667,515	$ 762,090	$ 710,888
All Utilities Total	$ 5,744,017	$ 13,805,461	$ 11,089,286	$ (4,263,912)	$ (25,321,312)	$ (32,012,348)
Days Cash on Hand Minimum Target: 150 Days | Debt Service Coverage Minimum Target: 2.00 | Board Approved Return on Assets as of FY 2018: 4.78%						
Days Cash on Hand	170	164	148	111	75	38
Debt Service Coverage	2.15	2.68	2.62	1.60	1.59	1.50
Return On Assets	2.20%	2.46%	1.76%	1.36%	0.52%	0.11%

Six Year Forecast: FY 2018 - FY 2023						
Net Income and Financial Metrics WITH Proposed Rate Increases						
Net Income (Loss):	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Electric	$ 6,982,691	$ 21,315,182	$ 25,927,136	$ 18,720,997	$ 6,353,701	$ 7,351,987
Water	$ 1,310,986	$ 2,753,008	$ 4,058,130	$ 4,462,118	$ 6,112,649	$ 8,241,070
Steam	$ (326,026)	$ 16,150	$ 296,486	$ 1,538,558	$ 858,678	$ 1,286,499
Chilled Water	$ 928,333	$ 975,999	$ 1,012,884	$ 667,515	$ 762,090	$ 710,888
All Utilities Total	$ 8,895,984	$ 25,060,339	$ 31,294,636	$ 25,389,188	$ 14,087,118	$ 17,590,444
Days Cash on Hand Minimum Target: 150 Days | Debt Service Coverage Minimum Target: 2.00 | Board Approved Return on Assets as of FY 2018: 4.78%						
Days Cash on Hand	174	183	191	182	189	204
Debt Service Coverage	2.24	3.08	3.32	2.20	2.38	2.50
Return On Assets	2.60%	3.58%	3.40%	3.75%	3.71%	4.15%

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Impact of Proposed Rate Strategy

Reflects February 1st Implementation each Fiscal Year

FY 2018 Impact of Proposed Rate Increases

Utility	Proposed Rate Increase	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	$ 4,861,479	2.59%	$ 6,982,691	3.03%
Water	5.5%	$ 587,673	1.05%	$ 1,310,986	1.38%
Steam	5.5%	$ (633,468)	1.75%	$ (326,026)	2.25%
Chilled Water	0.0%	$ 928,333	5.73%	$ 928,333	5.73%
All Utilities Total		**$ 5,744,017**	**2.20%**	**$ 8,895,984**	**2.60%**

FY 2019 Impact of Proposed Rate Increases

Utility	Proposed Rate Increase	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	$ 13,927,046	3.09%	$ 21,315,182	4.18%
Water	7.5%	$ (84,234)	0.62%	$ 2,753,008	1.88%
Steam	7.5%	$ (1,013,350)	1.09%	$ 16,150	2.66%
Chilled Water	0.0%	$ 975,998	5.15%	$ 975,998	5.15%
All Utilities Total		**$ 13,805,460**	**2.46%**	**$ 25,060,338**	**3.58%**

FY 2020 Impact of Proposed Rate Increases

Utility	Proposed Rate Increase	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	$ 13,091,682	2.26%	$ 25,927,136	3.68%
Water	7.5%	$ (1,427,978)	-0.05%	$ 4,058,130	2.29%
Steam	7.5%	$ (1,587,302)	0.29%	$ 296,486	3.03%
Chilled Water	0.0%	$ 1,012,884	4.40%	$ 1,012,884	4.40%
All Utilities Total		**$ 11,089,286**	**1.76%**	**$ 31,294,636**	**3.40%**

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Cost Saving Initiatives

- Strategic Cost Savings Initiatives
  - Integrated Resource Plan
  - Work Management
  - Asset Management
  - Eckert Transition
  - New Technology

- Targeted Cost Savings Initiatives
  - Healthcare cost sharing
  - Purchasing optimization
  - Transaction reviews
  - Capital investment

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Electric Rate Strategy

Utility Financial Solutions (UFS) Presentation

BWL's Cost of Service Study Consultant

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Electric Cost of Service Process:
Overview

- Annually, BWL completes a cost of service (COS) study
  - Historically, the results were not used to guide rate design for our general rate classes; rather, BWL applied the same percentage increase to each rate class
    - In 2014, BWL started the process to move street lights to cost of service
- To better match the cost recovery with cost causation and remain competitive, BWL recommends to move rates towards cost of service for the first time
  - This is consistent with State of Michigan policy of establishing rates consistent with cost of service
- BWL contracted with Utility Financial Solutions (UFS) to update our cost of service model
  - Cost of service studies compare revenues from each class of customers with the cost to provide service to each class
- Financial forecast called for a 3% overall increase; so BWL determined that all rate classes would receive at least 1.5% annual increases, but no more than 4.5%, to move rates towards cost of service
  - This will cause a gradual movement towards cost of service

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Electric Strategy:

- Overview
- Annual Net Income Impact
- Changes by Rate

- Staff reviewed and updated the cost of service model with the help of Utility Financial Solutions (UFS)
  - UFS is a well-established consultant for utilities
  - Frequently presents at American Public Power Association (APPA) conferences and works with many municipal utilities
- Summary of Recommendations from Study:
  - 3% overall increase each fiscal year
  - Move rates towards cost of service
  - Increase customer charges and demand charges
  - Add High Load Factor Rate
  - Add LED rates for street lighting and outdoor protective lighting
  - Update voluntary renewable program (Green Wise)
  - Update Rate 11 to all Unmetered Services
- Other Recommendations
  - Reduce Renewable Energy Plan (REP) surcharge to $0
  - Increase Energy Optimization (EO) surcharge
  - Update Modified Net Metering Language
  - Pole Attachments to move from Rules & Regulations to a tariff
  - Energy Cost Adjustment (ECA) baseline adjustment
    - Change name to Power Supply Cost Recovery (PSCR)

Electric Strategy:

Overview

Annual Net Income Impact

Changes by Rate

FY 2018 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	$ 4,861,479	2.59%	$ 6,982,691	3.03%
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All Utilities Total		**$ 13,805,460**	**2.46%**	**$ 25,060,338**	**3.58%**

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Chilled Water	0.0%	$ 1,012,884	4.40%	$ 1,012,884	4.40%
All Utilities Total		**$ 11,089,286**	**1.76%**	**$ 31,294,636**	**3.40%**

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Electric Strategy:

Overview

Annual Net Income Impact

Changes by Rate

Rate	COS	Feb-18	Feb-19	Feb-20
Rate 1, Residential	12.4%	3.90%	3.90%	3.90%
Rate 21, Senior Citizen Residential	45.4%	3.90%	3.90%	3.90%
Rate 22, Electric Vehicles	-14.3%	2.00%	2.00%	2.00%
Rate 3, General Service	1.9%	3.25%	3.25%	3.25%
Rate 7, Municipal Pumping	15.9%	4.50%	4.50%	4.50%
Rate 12, Space and Water Heating	-8.1%	2.00%	2.00%	2.00%
Rate 4, Large General Service	-1.7%	2.90%	1.90%	1.90%
Rate 5, Primary Service	-5.5%	1.55%	1.55%	1.55%
Rate 85, High Load Factor	**NEW**	**NEW**	3.00%	3.00%
Rate 8, Large Capacity Service	3.2%	3.25%	3.25%	3.25%
Rate 11, Unmetered Services	130.1%	9.00%	9.00%	9.00%
Rate 9, Outdoor Protective Lighting	-5.3%	2.90%	1.90%	1.90%
Rate 31, Company Owned Street Lights	15.4%	5.20%	5.20%	5.20%
Rate 31a, Company Owned Street Lights	88.2%	5.20%	5.20%	5.20%
Rate 32, Customer Owned Street Lights	-3.0%	2.90%	1.90%	1.90%
Total Electric Increase		**3.00%**	**3.00%**	**3.00%**

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Rate 1, Residential

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Rate 1, Residential:

- More recovery of fixed costs in customer charge
  - Customer charge increases to move towards COS
- Minimal energy charge increases
- Remains competitive with Consumers Energy
- Monthly impact for 569* kWh customer: $3.16 per month in year 1
- Annual increase: 3.9% per year

*FY 2017 average residential usage per month

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Rate 1, Residential:

Overview

Billing Determinants

Customer Charge Survey

Comparison of Residential Electric Bills
569 kWh Customer

Comparison to Consumers Energy, Rate Case U-18322

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 10.00	$ 13.00	$ 16.00	$ 19.00
Energy Charge:				
Winter Block 1 (0 - 500 kWh)	$ 0.11970	$ 0.12299	$ 0.12350	$ 0.12423
Winter Block 2 (Excess)	$ 0.12320	$ 0.12649	$ 0.12700	$ 0.12773
Summer Block 1 (0 - 500 kWh)	$ 0.11970	$ 0.12299	$ 0.12350	$ 0.12423
Summer Block 2 (Excess)	$ 0.12520	$ 0.12849	$ 0.12900	$ 0.12973
REP Surcharge	$ 0.75	$ -	$ -	$ -
EO Surcharge	$ 0.00185	$ 0.00268	$ 0.00268	$ 0.00268
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 77,069,764	$ 80,075,485	$ 83,198,429	$ 86,443,168
Change from Previous Year		**3.90%**	**3.90%**	**3.90%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 1, Residential:

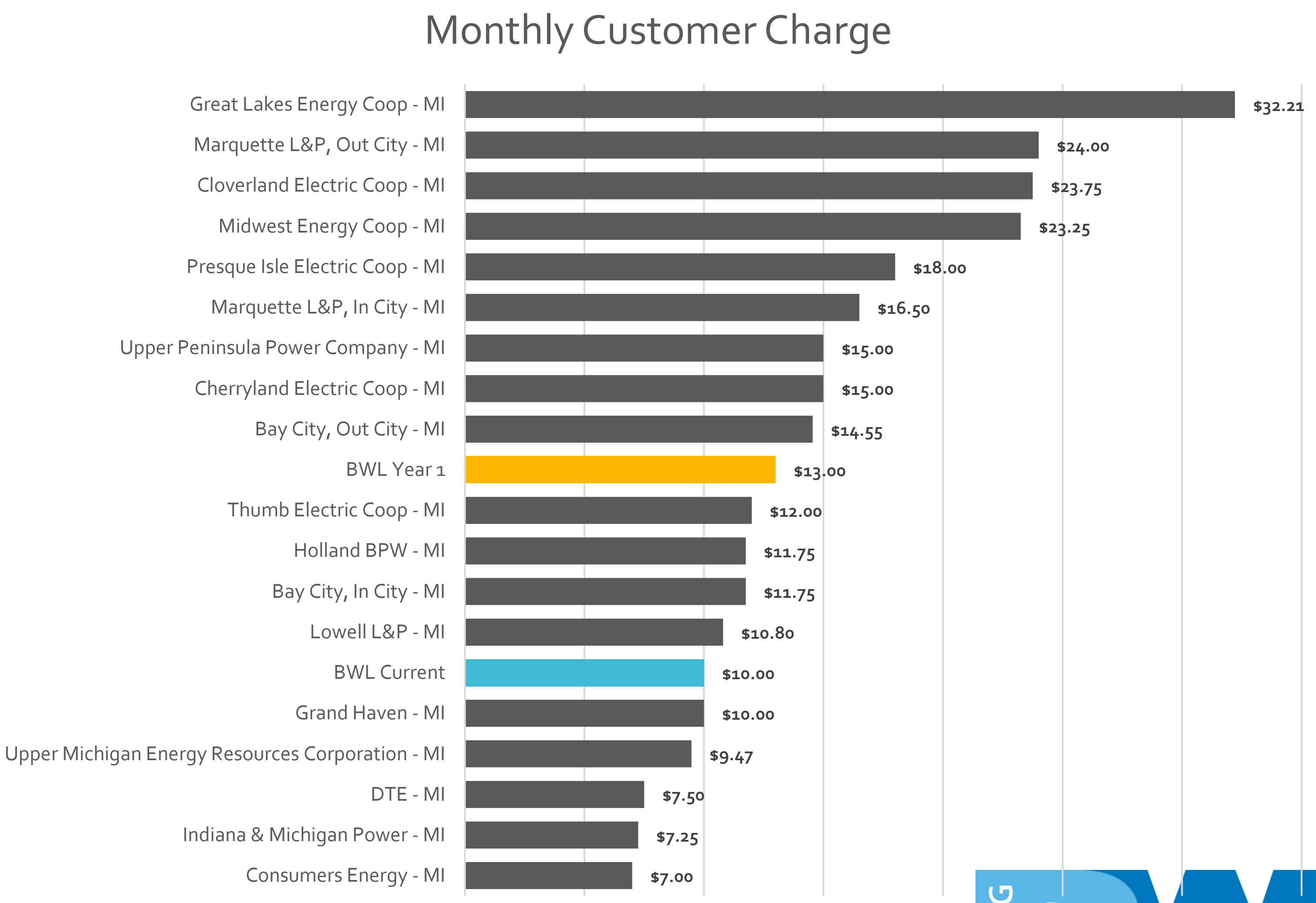
Overview

Billing Determinants

Customer Charge Survey

Comparison of Residential Electric Bills 569 kWh Customer

Comparison to Consumers Energy, Rate Case U-18322



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Rate 1, Residential:

Overview

Billing Determinants

Customer Charge Survey

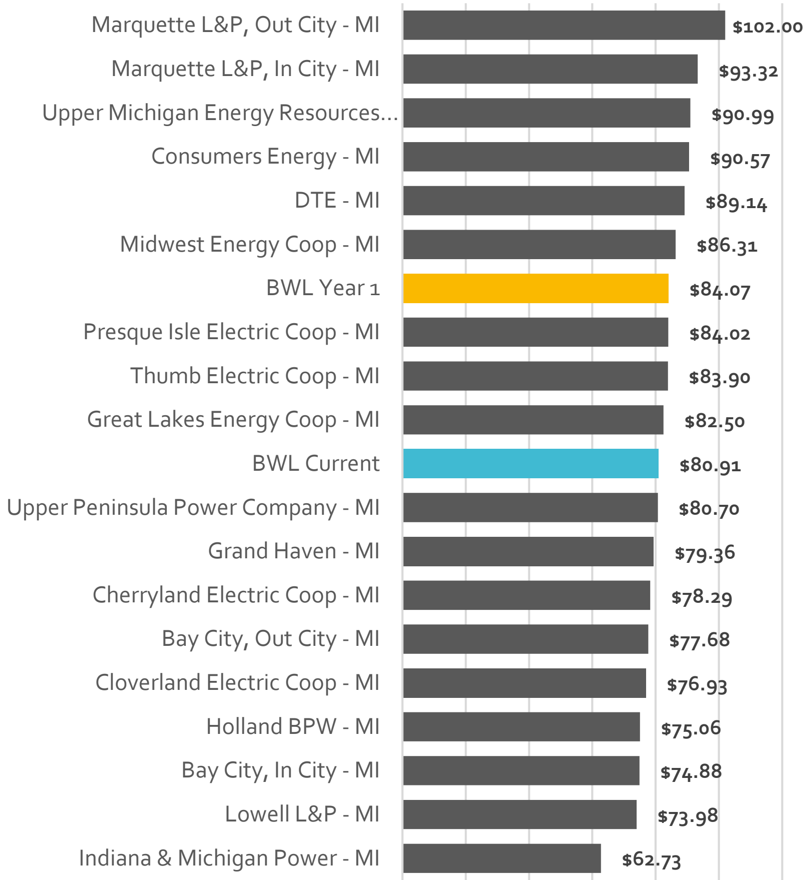
Comparison of Residential Electric Bills 569 kWh Customer

Comparison to Consumers Energy, Rate Case U-18322

Average Monthly Bill Breakdown

	Current	Year 1
Monthly Service Charge	$ 10.00	$ 13.00
Energy Block 1 (first 500 kWh)	$ 59.85	$ 61.49
Excess Energy Block	$ 8.64	$ 8.87
REP Surcharge	$ 0.75	$ -
EO Surcharge	$ 1.05	$ 1.52
PSCR	$ (0.81)	$ (0.81)
Environmental Surcharge	$ 1.42	$ -
Total	**$ 80.91**	**$ 84.07**
Change from Previous Year		**3.9%**
		$ 3.16

Average Monthly Bill



*FY 2017 average residential usage per month

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Rate 1, Residential:

Overview

Billing Determinants

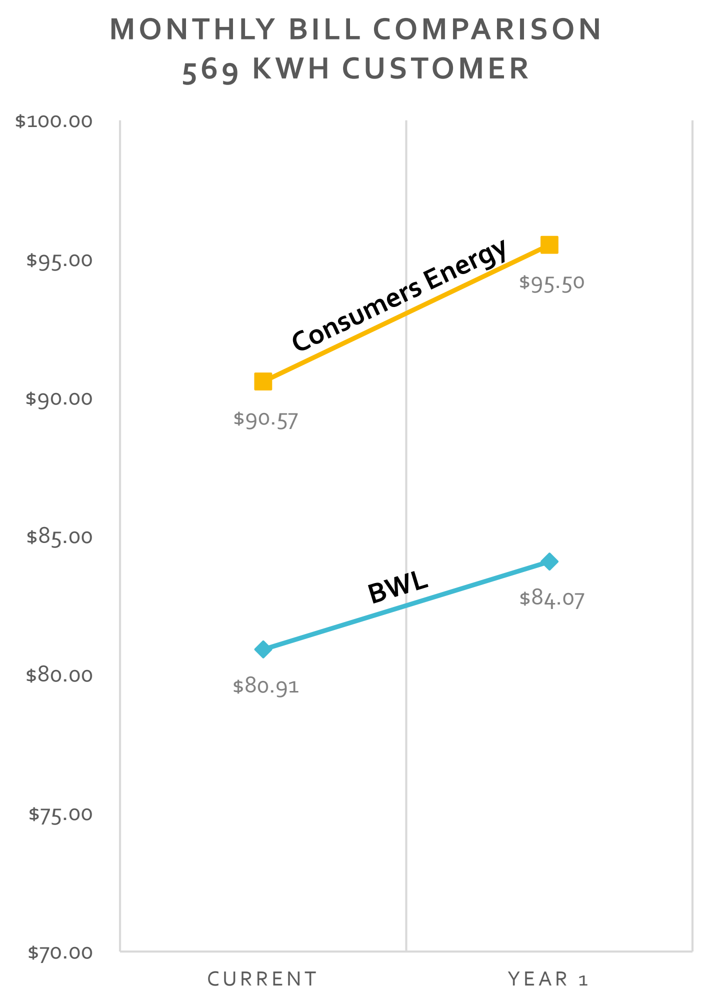
Customer Charge Survey

Comparison of Residential Electric Bills
569 kWh Customer

Comparison to Consumers Energy, Rate Case U-18322

- Case opened 3/31/2017
- Requesting 5.6% from the residential class
- Have continued to increase residential rates while providing limited increases to large commercial customers

Rate	Percent Increase Requested
Residential Class	5.6%
Secondary Class	6.6%
Primary Class	0.0%
Lighting & Unmetered	10.5%
Total Bundled Service	4.2%



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Rate 21, Senior Citizen Residential

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Rate 21, Senior Citizen Residential:

Overview

Billing Determinants

- More recovery of fixed costs in customer charge
  - Customer charge increases to move towards COS
- Energy rate for first 300 kWh decrease
- Annual increase: 3.9% per year

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Rate 21, Senior Citizen Residential:

Overview

Billing Determinants

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 5.22	$ 8.25	$ 11.25	$ 14.25
Energy Charge:				
Block 1 (0 - 300 kWh)	$ 0.09610	$ 0.09094	$ 0.08604	$ 0.07864
Block 2 (301 - 500 kWh)	$ 0.13830	$ 0.15043	$ 0.15089	$ 0.15924
Block 3 (Excess)	$ 0.17340	$ 0.18553	$ 0.18599	$ 0.19434
REP Surcharge	$ 0.50	$ -	$ -	$ -
EO Surcharge	$ 0.00185	$ 0.00268	$ 0.00268	$ 0.00268
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 2,456,721	$ 2,552,533	$ 2,652,082	$ 2,755,513
Change from Previous		**3.90%**	**3.90%**	**3.90%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 22, Electric Vehicles

Rate 22, Electric Vehicles:

Overview

Billing Determinants

- More recovery of fixed costs in customer charge
  - Customer charge increases to move towards COS
- Increasing differential of on and off peak energy price
- Less than $1 monthly impact
- Annual increase: 2.0% per year

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Rate 22, Electric Vehicles:

Overview

Billing Determinants

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 1.95	$ 2.50	$ 3.00	$ 3.50
Energy Charge:				
On-Peak	$ 0.17150	$ 0.17305	$ 0.17243	$ 0.17185
Off-Peak	$ 0.08210	$ 0.08365	$ 0.08303	$ 0.08245
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 5,728	$ 5,843	$ 5,959	$ 6,079
Change from Previous		**2.00%**	**2.00%**	**2.00%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Energy Based Commercial & Industrial Rates

Rate 3, General Service

Rate 7, Municipal Pumping

Rate 12, Space and Water Heating

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Rate 3, General Service (Secondary):

Billing Determinants & Overview

Rates	Current	Year 1	Year 2	Year 3
Customer Charge:				
All Customers	$ 24.00	$ 28.00	$ 32.00	$ 36.00
Energy Charge:				
Non Summer Energy	$ 0.13030	$ 0.13711	$ 0.14040	$ 0.14386
Summer Energy	$ 0.13420	$ 0.14101	$ 0.14430	$ 0.14776
REP Surcharge	$ 0.0024	$ -	$ -	$ -
EO Surcharge	$ 6.58	$ 9.51	$ 9.51	$ 9.51
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 44,865,106	$ 46,323,222	$ 47,828,727	$ 49,383,161
Change from Previous		**3.25%**	**3.25%**	**3.25%**

- More recovery of fixed costs in customer charge
  - Customer charge increases to move towards COS
- Annual increase: 3.25% per year

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 7, Municipal Pumping:

Billing Determinants & Overview

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 16.00	$ 20.00	$ 24.00	$ 28.00
Energy Charge:				
All Energy	$ 0.11020	$ 0.11817	$ 0.12324	$ 0.12855
REP Surcharge	$ 12.00	$ -	$ -	$ -
EO Surcharge	$ 6.58	$ 9.51	$ 9.51	$ 9.51
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 2,385,081	$ 2,492,410	$ 2,604,569	$ 2,721,774
Change from Previous		**4.50%**	**4.50%**	**4.50%**

- Customer charge increases towards COS
- Annual increase: 4.5% per year

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 12, Space and Water Heating:

Billing Determinants & Overview

Rates		Current		Year 1		Year 2		Year 3
Customer Charge:								
All Customers	$	30.00	$	35.00	$	40.00	$	45.00
Energy Charge:								
Non Summer Energy	$	0.10560	$	0.11141	$	0.11324	$	0.11512
Summer Energy	$	0.14870	$	0.15451	$	0.15634	$	0.15822
REP Surcharge	$	12.00	$	-	$	-	$	-
EO Surcharge	$	6.58	$	9.51	$	9.51	$	9.51
Adjustments:								
PSCR	$	(0.00142)	$	(0.00142)	$	(0.00142)	$	(0.00142)
Environmental	$	0.00250	$	-	$	-	$	-
Total Adjustments / kWh	$	0.00108	$	(0.00142)	$	(0.00142)	$	(0.00142)
Total Billings	$	2,987,224	$	3,046,968	$	3,107,908	$	3,170,066
Change from Previous				**2.00%**		**2.00%**		**2.00%**

- More recovery of fixed costs in customer charge
  - Customer charge increases to move towards customer charge COS
- Annual increase: 2.0% per year

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 4, Large General Service

Secondary Service

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Rate 4, Large General Service:

Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

- More recovery of fixed costs in customer & demand charges
  - Customer charge increases $50 per year to move towards COS
  - Demand charge increases
- Adding a 50% demand charge ratchet
- Energy rate <u>decrease</u>
- Annual increase:
  - 2.9% year 1
  - 1.9% years 2 & 3

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Rate 4, Large General Service:

Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 50.00	$ 100.00	$ 150.00	$ 200.00
Energy Charge:				
Winter Energy	$ 0.08320	$ 0.08163	$ 0.07440	$ 0.06721
Summer Energy	$ 0.08770	$ 0.08613	$ 0.07890	$ 0.07171
Demand Charge:				
All Demand	$ 11.76	$ 14.00	$ 17.25	$ 20.50
Reactive Power Charge:				
kVar>50% of kWh	$ 0.0106	$ 0.0106	$ 0.0106	$ 0.0106
REP Surcharge	$ 12.00	$ -	$ -	$ -
EO Surcharge	$ 65.78	$ 95.05	$ 95.05	$ 95.05
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 39,793,582	$ 40,947,596	$ 41,725,600	$ 42,518,387
Change from Previous		**2.90%**	**1.90%**	**1.90%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 4, Large General Service:

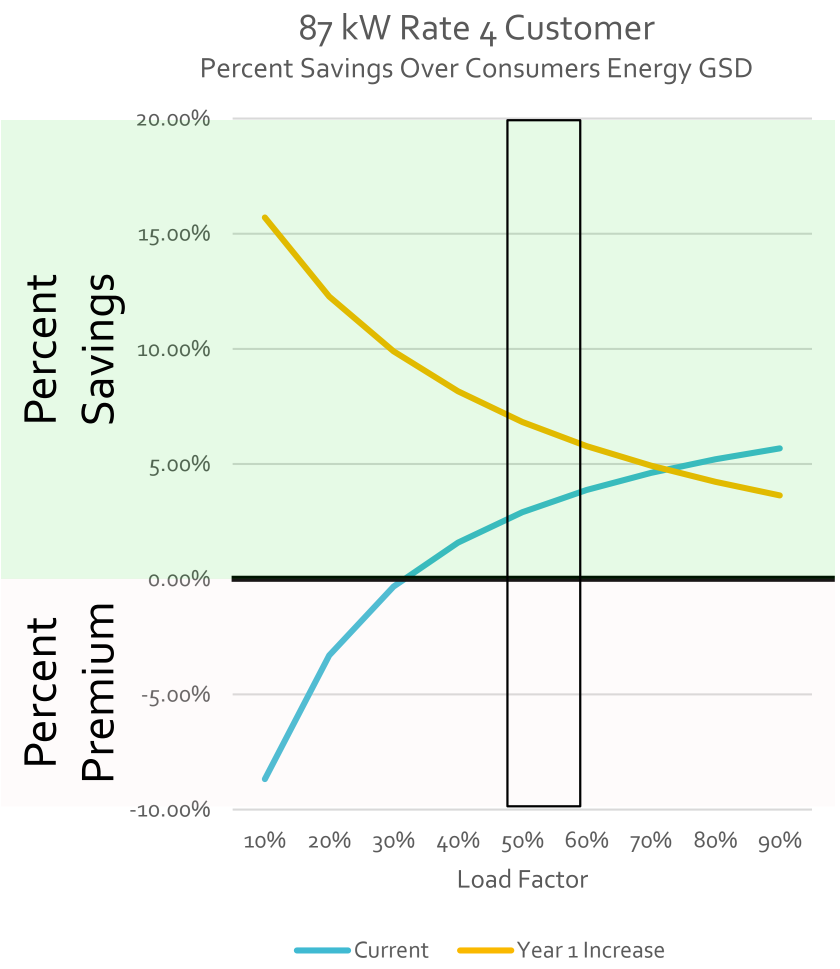
Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

- Case opened 3/31/2017
- Requesting 9.1% from General Service Demand (GSD) Rate, which is in the secondary class
- Have continued to increase small commercial rates while providing limited increases to large commercial customers

Rate	Percent Increase Requested
Residential Class	5.6%
Secondary Class	6.6%
Primary Class	0.0%
Lighting & Unmetered	10.5%
Total Bundled Service	4.2%



Rate 4 average demand: 87 kW
Rate 4 average load factor: 55%

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Rate 5, Primary Service

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Rate 5, Primary Service:

Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

- More recovery of fixed costs in customer & demand charges
  - Customer charge increases $65 per year to move towards COS
  - Demand charge increases
- Adding a 50% demand charge ratchet
- Energy rate <u>decrease</u>
- Annual increase: 1.55% per year

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Rate 5, Primary Service:

Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 125.00	$ 190.00	$ 255.00	$ 320.00
Energy Charge:				
Non Summer On-Peak Energ	$ 0.07890	$ 0.07580	$ 0.07061	$ 0.06537
Non Summer Off-Peak Energ	$ 0.07690	$ 0.07380	$ 0.06861	$ 0.06337
Summer On-Peak Energy	$ 0.08130	$ 0.07820	$ 0.07301	$ 0.06777
Summer Off-Peak Energy	$ 0.07690	$ 0.07380	$ 0.06861	$ 0.06337
Demand Charge:				
On Peak Demand	$ 9.53	$ 11.50	$ 13.70	$ 16.25
Maximum Demand	$ 3.16	$ 4.50	$ 5.50	$ 6.20
Reactive Power Charge:				
kVar>50% of kWh	$ 0.0106	$ 0.0106	$ 0.0106	$ 0.0106
REP Surcharge	$ 160.00	$ -	$ -	$ -
EO Surcharge	$ 461.20	$ 666.43	$ 666.43	$ 666.43
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 57,151,483	$ 58,037,331	$ 58,936,909	$ 59,850,432
Change from Previous		**1.55%**	**1.55%**	**1.55%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 5, Primary Service:

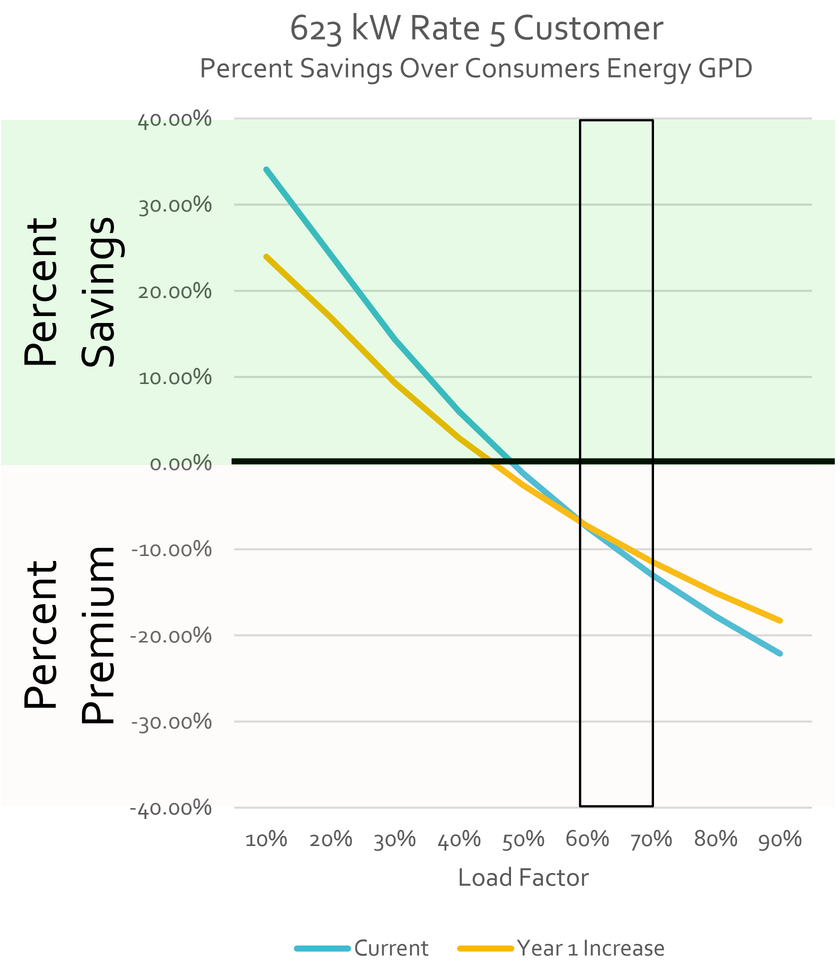
Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

- Case opened 3/31/2017
- Requesting a minimal increase for General Primary Demand (GPD) Voltage Level 3, which is in the Primary Class
- Have continued to increase small commercial & residential rates while providing limited increases to large commercial customers

Rate	Percent Increase Requested
Residential Class	5.6%
Secondary Class	6.6%
Primary Class	0.0%
Lighting & Unmetered	10.5%
Total Bundled Service	4.2%



Rate 5 average demand: 623 kW
Rate 5 average load factor: 65%

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Rate 85, Primary Service High Load Factor - **NEW**

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Rate 85, High Load Factor:

Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

- Created a new rate for customers with high annual load factors
- Requirements:
  - Primary service
  - 1 MW demand
  - Annual load factor of 85% or higher
  - Aggregation of services allowed
  - If customers fall below load factor or demand requirement, they are subject for removal from this rate and will be billed on Rate 5
- Rate starts at COS
- Annual increases: 3.0% in years 2 & 3

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Rate 85, High Load Factor:

Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

Rates	Year 1	Year 2	Year 3
Monthly Facilities Charge:			
All Customers	$ 310.00	$ 310.00	$ 310.00
Energy Charge:			
Non Summer On-Peak Energ	$ 0.04969	$ 0.05118	$ 0.05272
Non Summer Off-Peak Energ	$ 0.04769	$ 0.04912	$ 0.05059
Summer On-Peak Energy	$ 0.05209	$ 0.05365	$ 0.05526
Summer Off-Peak Energy	$ 0.04769	$ 0.04912	$ 0.05059
Demand Charge:			
On Peak Demand	$ 17.65	$ 18.18	$ 18.73
Maximum Demand	$ 6.15	$ 6.33	$ 6.52
Reactive Power Charge:			
kVar>50% of kWh	$ 0.0106	$ 0.0106	$ 0.0106
REP Surcharge	$ -	$ -	$ -
EO Surcharge	$ 666.43	$ 666.43	$ 666.43
Adjustments:			
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ -	$ -	$ -
Total Adjustments / kWh	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 3,937,351	$ 4,055,471	$ 4,177,135
Change from Previous		**3.00%**	**3.00%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Rate 85, High Load Factor :

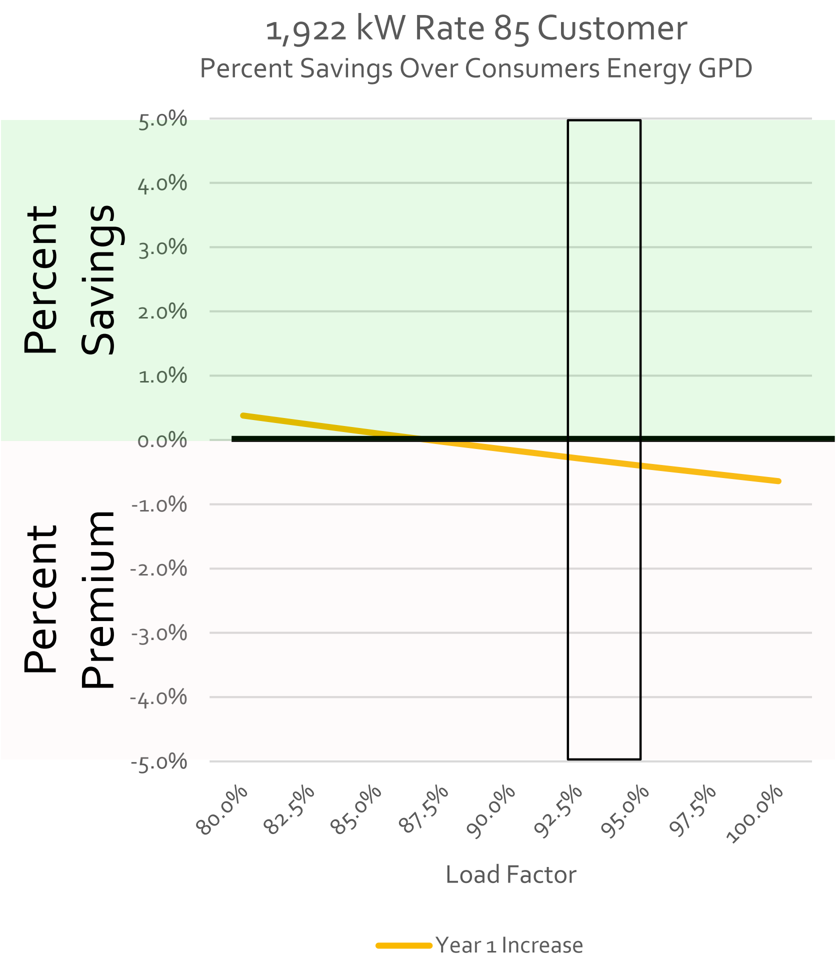
Overview

Billing Determinants

Comparison to Consumers Energy, Rate Case U-18322

- Case opened 3/31/2017
- Requesting a minimal increase for General Primary Demand (GPD) Voltage Level 3, which is in the Primary Class
- Have continued to increase small commercial & residential rates while providing limited increases to large commercial customers

Rate	Percent Increase Requested
Residential Class	5.6%
Secondary Class	6.6%
Primary Class	0.0%
Lighting & Unmetered	10.5%
Total Bundled Service	4.2%



Rate 85 average demand: 1,922 kW
Rate 85 average load factor: 94%

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Rate 8, Large Capacity Service

Rate 8, Large Capacity Service:

Overview

Billing Determinants

- Customer charge increases $30 per year to move towards COS
- Demand charge increases
- Energy rate increases in year 1, decreases each year after
- Annual increase: 3.25% each year

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Rate 8, Large Capacity Service:

Overview

Billing Determinants

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
All Customers	$ 400.00	$ 430.00	$ 460.00	$ 490.00
Energy Charge:				
Non Summer On-Peak Energ	$ 0.07360	$ 0.07466	$ 0.07375	$ 0.07295
Non Summer Off-Peak Energ	$ 0.06960	$ 0.07066	$ 0.06975	$ 0.06895
Summer On-Peak Energy	$ 0.07520	$ 0.07626	$ 0.07535	$ 0.07455
Summer Off-Peak Energy	$ 0.06960	$ 0.07066	$ 0.06975	$ 0.06895
Demand Charge:				
On Peak Demand	$ 10.74	$ 13.00	$ 15.00	$ 17.00
Maximum Demand	$ 2.02	$ 2.25	$ 2.50	$ 2.75
Reactive Power Charge:				
kVar>50% of kWh	$ 0.0106	$ 0.0106	$ 0.0106	$ 0.0106
REP Surcharge	$ 160.00	$ -	$ -	$ -
EO Surcharge	$ 461.20	$ 666.43	$ 666.43	$ 666.43
Adjustments:				
PSCR	$ (0.00142)	$ (0.00142)	$ (0.00142)	$ (0.00142)
Environmental	$ 0.00250	$ -	$ -	$ -
Total Adjustments / kWh	$ 0.00108	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 27,446,641	$ 28,338,657	$ 29,259,664	$ 30,210,603
Change from Previous		**3.25%**	**3.25%**	**3.25%**

*Year 1 is the first full year billing impact of rate change, not FY18

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Other Rates & Updates

Rate 11, Unmetered Services:

Billing Determinants & Overview

Rates	Current	Year 1	Year 2	Year 3
Monthly Facilities Charge:				
Per Service Location	$ 3.00	$ 3.50	$ 4.00	$ 4.50
Commodity Charge:				
All Energy	$ -	$ 0.07398	$ 0.08031	$ 0.08726
Active Watt of Load	$ 0.04170	$ -	$ -	$ -
REP Surcharge	$ 9.00	$ -	$ -	$ -
EO Surcharge	$ -	$ -	$ -	$ -
PSCR	$ -	$ (0.00142)	$ (0.00142)	$ (0.00142)
Total Billings	$ 252,712	$ 275,456	$ 300,247	$ 327,269
Change from Previous		**9.0%**	**9.0%**	**9.0%**

- Renamed rate “Unmetered Services” from “Traffic Signals” to allow other unmetered services that consume electricity, but are not traffic signals, to be billed at this rate
- Changed per customer charge to per service location
- Changed per Active Watt to per kWh
- Maintenance payments not included above
- Annual increase: 9.0% per year
  - Actual rate impact when including maintenance payments is less than 5% in years 2 & 3

*Year 1 is the first full year billing impact of rate change, not FY18

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OPL and Street Lights:

Overview

- Rate 9, Outdoor Protective Lighting
  - **UPDATED** - LED wattage bands added
    - Provides flexibility in LED offerings to customers
  - Annual increase:
    - 2.9% year 1
    - 1.9% years 2 & 3
- Rates 31 & 31a, Company Owned Street Lights
  - **UPDATED** - LED wattage bands added
    - Provides flexibility in LED offerings to customers
  - During 2014, BWL sought a two step process to COS
    - Step 1 implemented 2014 (part-way to COS)
    - Step 2 was to get to COS in the next rate case
  - To reach COS, a larger annual increases is needed
  - Annual increase: 5.2% per year
- Rate 32, Customer Owned Street Lights
  - **New** - LED charges added
  - Annual increase:
    - 2.9% year 1
    - 1.9% years 2 & 3

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Voluntary Renewable Energy Rider:

Overview

- Updating our Green Wise program to better reflect customer preferences
- Customers will be able to claim that their energy is generated from renewable resources
  - Customers can purchase blocks of 250kWh to make up most or all of their monthly consumption
- Renewable credits associated with the energy purchased from the rider will be retired and will not be used to fulfill BWL's renewable energy compliance requirements
- Initial program capped at first 200,000 MWh
  - Target January 1, 2019 program start

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Pole Attachments:

Overview

- Moving pole attachment charges from Rules and Regulations to Tariff Sheet
  - We will be proposing corresponding Rules and Regulations changes at a future meeting
- Two types:
  - Cables/wires: $7.30 per attachment
  - Equipment: $17.93 per attachment
- Pole attachments that use energy will be billed on Rate 11, Unmetered Services in addition to attachment charge
- Aligns local customer and large utility pole attachment rates
- This rate will become effective as customers' contracts expire
- Annual increases: 3.0% in years 2 & 3

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Modified Net Metering:

Overview

- BWL has received several inquires for photovoltaic solar systems larger than the true-net metering cap of 20 kW
  - Some customers are requesting to send the energy back at no cost to BWL
- Current Renewable Energy Net Metering Rider allows for modified net metering for systems larger than 20 kW, but less than 50 kW
  - These systems must be approved by BWL and will have an individual contract for excess generation sent to BWL
- BWL will update modified net metering language in the current rider
- In order to remove the barrier of individual contracts with customers, BWL will monetize and credit the customer for excess generation monthly depending on the installation type and the metering equipment installed
- Customer will continue to pay retail rate when consuming electricity from BWL grid

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REP & EO Surcharge Changes:

Overview

- The Renewable Energy Plan (REP) surcharge will be set to $0
  - Since costs have fallen for renewable energy, we have collected a sufficient amount to cover the incremental cost of compliance for the state mandated renewable energy standard
- Energy Optimization (EO) program collections have been lower than program expenses
- Reducing REP and increasing EO causes a net benefit to electric customers rates, which is included in the net impact to customers presented earlier

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Environmental Surcharge:

Overview

- Environmental surcharge used to recover environmental remediation expense will be set to $0.00 per kWh
  - We have collected a sufficient amount to cover current projects
- We will revisit the surcharge in future years if recovery for remediation is necessary
- Update language

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Power Supply Cost Recovery (PSCR):

Overview

- Formerly Energy Cost Adjustment (ECA)
- Renamed Power Supply Cost Recovery (PSCR)
- Language has been updated to more clearly address fuel cost, MISO market costs, and other variable costs associated with generation.
- The base cost of energy has been adjusted to account for capacity and transmission revenue as well as changes in debt service related to Belle River and the BWL's New Plant.

Water Rate Strategy

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Water Rates:

Overview

Annual Net Income Impact

Comparison of Residential Water Bills
6 ccf Customer

- Rate Strategy
  - 5.5% Increase FY 2018
  - 7.5% Increase FY 2019
  - 7.5% Increase FY 2020
- Combining basic service charge for 5/8" and 3/4" meters in Rates 1 & 2 to conform to BWL standards
- BWL to review and update cost of service model in next three years

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Water Rates:

Overview

Annual Net Income Impact

Comparison of Residential Water Bills
6 ccf Customer

FY 2018 Impact of Proposed Rate Increases					
Utility	**Proposed Rate Increase**	**Net Income Without Increases**	**Return On Assets Without Increases**	**Net Income With Increases**	**Return On Assets With Increases**
Electric	3.0%	$ 4,861,479	2.59%	$ 6,982,691	3.03%
Water	5.5%	$ 587,673	1.05%	$ 1,310,986	1.38%
Steam	5.5%	$ (633,468)	1.75%	$ (326,026)	2.25%
Chilled Water	0.0%	$ 928,333	5.73%	$ 928,333	5.73%
All Utilities Total		**$ 5,744,017**	**2.20%**	**$ 8,895,984**	**2.60%**

FY 2019 Impact of Proposed Rate Increases					
Utility	**Proposed Rate Increase**	**Net Income Without Increases**	**Return On Assets Without Increases**	**Net Income With Increases**	**Return On Assets With Increases**
Electric	3.0%	$ 13,927,046	3.09%	$ 21,315,182	4.18%
Water	7.5%	$ (84,234)	0.62%	$ 2,753,008	1.88%
Steam	7.5%	$ (1,013,350)	1.09%	$ 16,150	2.66%
Chilled Water	0.0%	$ 975,998	5.15%	$ 975,998	5.15%
All Utilities Total		**$ 13,805,460**	**2.46%**	**$ 25,060,338**	**3.58%**

FY 2020 Impact of Proposed Rate Increases					
Utility	**Proposed Rate Increase**	**Net Income Without Increases**	**Return On Assets Without Increases**	**Net Income With Increases**	**Return On Assets With Increases**
Electric	3.0%	$ 13,091,682	2.26%	$ 25,927,136	3.68%
Water	7.5%	$ (1,427,978)	-0.05%	$ 4,058,130	2.29%
Steam	7.5%	$ (1,587,302)	0.29%	$ 296,486	3.03%
Chilled Water	0.0%	$ 1,012,884	4.40%	$ 1,012,884	4.40%
All Utilities Total		**$ 11,089,286**	**1.76%**	**$ 31,294,636**	**3.40%**

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Water Rates:

Overview

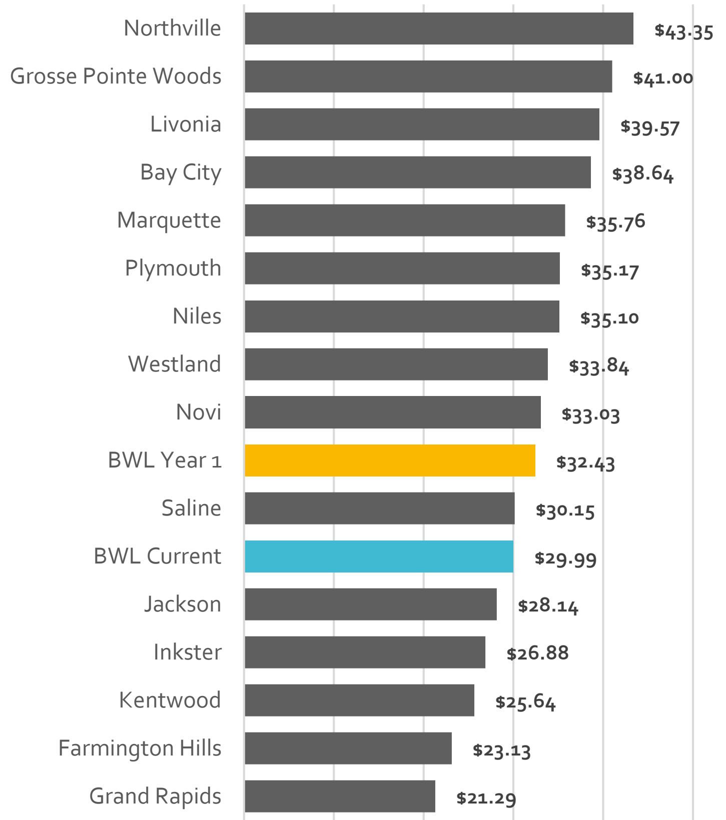
Annual Net Income Impact

Comparison of Residential Water Bills
6 ccf Customer

Sample Monthly Bill Breakdown

		Current		Feb-18
Service Charge (Per Month)	$	12.20	$	13.72
Commodity (Per ccf)	$	2.79	$	2.94
PCA	$	0.175	$	0.175
Estimated Monthly Usage	6 ccf or about 4500 gallons			
Service Charge	$	12.20	$	13.72
Commodity	$	17.79	$	18.71
Total Bill	**$**	**29.99**	**$**	**32.43**
Change from Previous			**$**	**2.44**
				8.1%

Comparison to Other Utilities



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Steam Rate Strategy

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Steam Rates:

Overview

Annual Net Income Impact

Comparison of Commercial Steam Bills
100 Mlbs Customer

- Rates 1,2,5
  - 5.5% Increase FY 2018
  - 7.5% Increase FY 2019
  - 7.5% Increase FY 2020
- BWL to review and update cost of service model in next three years

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Steam Rates:

Overview

Annual Net Income Impact

Comparison of Commercial Steam Bills
100 Mlbs Customer

FY 2018 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	$ 4,861,479	2.59%	$ 6,982,691	3.03%
Water	5.5%	$ 587,673	1.05%	$ 1,310,986	1.38%
Steam	5.5%	$ (633,468)	1.75%	$ (326,026)	2.25%
Chilled Water	0.0%	$ 928,333	5.73%	$ 928,333	5.73%
All Utilities Total		**$ 5,744,017**	**2.20%**	**$ 8,895,984**	**2.60%**

FY 2019 Impact of Proposed Rate Increases					
Utility	Proposed Rate Increase	Net Income Without Increases	Return On Assets Without Increases	Net Income With Increases	Return On Assets With Increases
Electric	3.0%	$ 13,927,046	3.09%	$ 21,315,182	4.18%
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Steam	7.5%	$ (1,013,350)	1.09%	$ 16,150	2.66%
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All Utilities Total		**$ 13,805,460**	**2.46%**	**$ 25,060,338**	**3.58%**

FY 2020 Impact of Proposed Rate Increases					
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Water	7.5%	$ (1,427,978)	-0.05%	$ 4,058,130	2.29%
Steam	7.5%	$ (1,587,302)	0.29%	$ 296,486	3.03%
Chilled Water	0.0%	$ 1,012,884	4.40%	$ 1,012,884	4.40%
All Utilities Total		**$ 11,089,286**	**1.76%**	**$ 31,294,636**	**3.40%**

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Steam Rates:

Overview

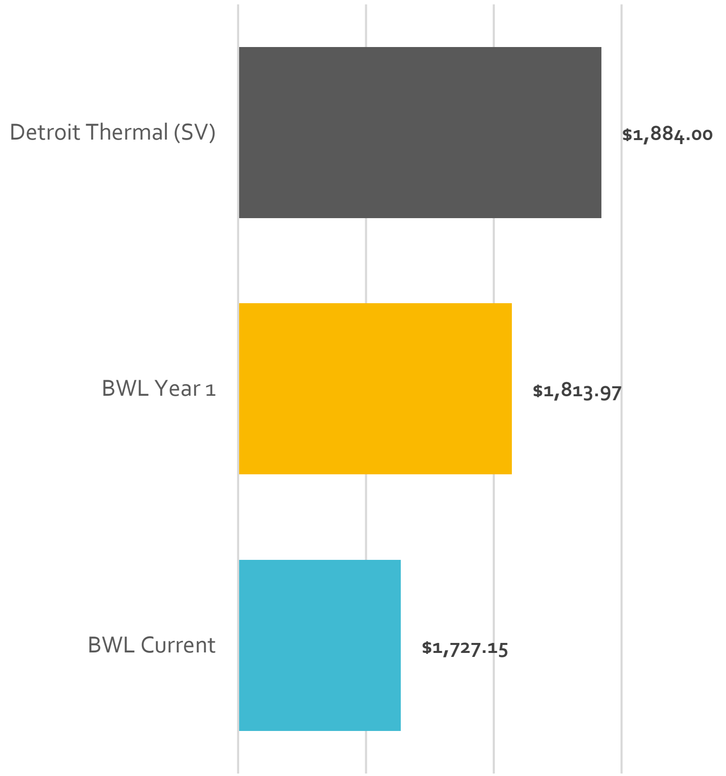
Annual Net Income Impact

Comparison of Commercial Steam Bills
100 Mlbs Customer

Sample Monthly Bill Breakdown

Winter	Current		Feb-18	
Service Charge (Per Montł	$	13.56	$	14.31
Commodity (Per Mlb)	$	15.65	$	16.51
FCA and ATA	$	1.4859	$	1.4859
Estimated Monthly Usage		100 Mlbs		
Service Charge	$	13.56	$	14.31
Commodity	$	1,713.59	$	1,799.67
Total Bill	$	1,727.15	$	1,813.97
				5.0%

Comparison to Other Utilities



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Chilled Water Rate Strategy

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Chilled Water Rates:

Overview

Annual Net Income Impact

- No General Increase
- Temperature Factor Adjustment
  - Update language

Chilled Water Rates:

Overview

Annual Net Income Impact

FY 2018 Impact of Proposed Rate Increases					
Utility	**Proposed Rate Increase**	**Net Income Without Increases**	**Return On Assets Without Increases**	**Net Income With Increases**	**Return On Assets With Increases**
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Chilled Water	0.0%	$ 928,333	5.73%	$ 928,333	5.73%
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Chilled Water	0.0%	$ 975,998	5.15%	$ 975,998	5.15%
All Utilities Total		**$ 13,805,460**	**2.46%**	**$ 25,060,338**	**3.58%**

FY 2020 Impact of Proposed Rate Increases					
Utility	**Proposed Rate Increase**	**Net Income Without Increases**	**Return On Assets Without Increases**	**Net Income With Increases**	**Return On Assets With Increases**
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Steam	7.5%	$ (1,587,302)	0.29%	$ 296,486	3.03%
Chilled Water	0.0%	$ 1,012,884	4.40%	$ 1,012,884	4.40%
All Utilities Total		**$ 11,089,286**	**1.76%**	**$ 31,294,636**	**3.40%**

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Rate Strategy Timeline

- City clerk filing of proposed tariffs by October 16, 2017
  - The city clerk filing is due 45 days prior to public hearing.
- Publication of Notice by November 15, 2017
  - The publication of notice must be at least 14 days prior to the public hearing.
- Public hearing on November 30, 2017
  - The public hearing must be at least 30 days prior to rate implementation.
- Proposed Special Board meeting for final tariff approval on December 5, 2017
- Rate Strategy Implementation on February 1, 2018

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Proposed Resolution
Public Hearing for 2018-2020 Rate Adjustments

WHEREAS, rates shall be established at a level that will enable the Board of Water and Light (BWL) to meet its mission of serving the Greater Lansing area by providing high quality utility services, reliably, at the lowest reasonable cost; and

WHEREAS, in accordance with the BWL's Rate Making Principles, BWL management has reviewed the electric rates relative to its financial plan and recommends an overall increase of 3%, comprised of varying individual rate class increases, to electric billings on February 1, 2018, February 1, 2019, and February 1, 2020; and

WHEREAS, in accordance with the BWL's Rate Making Principles, BWL management has reviewed the water relative to its financial plan and recommends a 5.5% increase to water billings on February 1, 2018 and a 7.5% increase to water billings on February 1, 2019 and February 1, 2020; and

WHEREAS, in accordance with the BWL's Rate Making Principles, BWL management has reviewed the steam rates relative to its financial plan and recommends a 5.5% increase to steam billings on February 1, 2018 and a 7.5% increase to steam billings on February 1, 2019 and February 1, 2020;

RESOLVED, the Board of Commissioners accepts BWL management's recommendations as proposed rate adjustments.

FURTHER RESOLVED, the proposed rate adjustments will be subject to further consideration after a public hearing is held.

FURTHER RESOLVED, that the Finance Committee hereby sets the date of November 30, 2017 at 5:30 p.m. for a public hearing to solicit public input on the proposed rate adjustments. The hearing will be held in the Board of Water and Light offices, 1201 S. Washington Avenue, in the Depot facility. The Corporate Secretary is directed to file with the City Clerk no later than October 16, 2017 information regarding proposed rate adjustments with effective dates of February 1, 2018, February 1, 2019, and February 1, 2020.

Lansing Board of Water and Light
Internal Audit Charter - 2015 Revision

Mission:

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

Purpose:

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

Independence:

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

Authority:

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

Responsibility and Scope:

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

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

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

Standards:

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

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

Internal Audit Plan:

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

Periodic Assessment:

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

RESOLUTION 2015-07-09

INTERNAL AUDITOR CHARTER APPROVAL

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

RESOLUTION #

Internal Auditor Charter Approval

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