



## **FINANCE COMMITTEE MEETING**

### **AGENDA**

**September 18, 2018**

**6:00 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 10, 2018..... **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. Post Retirement Benefit Plan Audited Financial Statements
  - f. Resolution- Acceptance of the 2018 Audited Financial Statements
3. July YTD Financial Summary.....**TAB 3**
4. Capital Project Exceedance Electric Annual Account—Resolution..... **TAB 4**
5. Internal Auditor’s Revised Audit Plan for FY 2019 .....**TAB 5**

Other

Adjourn

# FINANCE COMMITTEE Meeting Minutes July 10, 2018

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, on Tuesday, July 10, 2018.

Finance Committee Chair Ken Ross called the meeting to order at 6:50 p.m. and asked that roll be taken.

Present: Commissioners Ken Ross, Beth Graham, Dennis Louney, and David Price. Also present: Non-Voting Commissioners Douglas Jester (East Lansing) and William Long (Delta Township).

Absent: None.

The Corporate Secretary declared a quorum.

## Public Comments

None

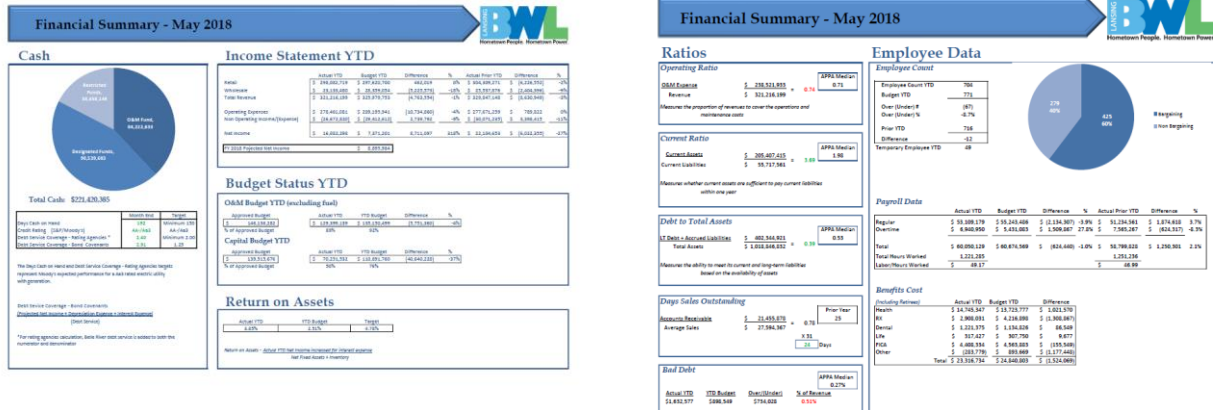
## Approval of Minutes

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to approve the Finance Committee meeting minutes of May 15, 2018.

**Action:** Motion Carried.

## May YTD Financial Summary

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



Cash targets are exceeding targets. Cash increased by \$3.5 million due to a \$2 million settlement received from CIBER SAP program from a couple years ago. Revenue tracking is comparable to last year, operating expenses are under budget, and \$9 million is projected for fiscal year end. O & M is 4% under budget YTD. Capital budget spend is expected to come in as projected at year end. Three out of five ratios are tracking above benchmarks. For Employee Data there is an increase from last month due to 10 temporary intern employees. Payroll data and benefit costs are tracking as they have for the year.

## Bonding Update

CFO Shawa announced that Phase I of the Bond was executed on June 27, 2018 and J.P. Morgan was selected with whom BWL entered into a \$100 million 18-month bond anticipation note. The first withdrawal of \$50,000 was made. The cost on the undrawn amount was .2% or 20 basis points. The cost on the drawn amount was 2.28%. Some of the larger equipment purchases are starting to be secured and the next withdrawal is expected to be \$5-7 million.

Commissioner Louney inquired about previous approval of funding for upgraded cyber security measures. CFO Shawa responded that the primary corporate data center will be located at REO and the infrastructure plans are on track to be completed by September 2018. The co-location at the DewPoint Data Center offsite is scheduled for January 2019.

## Internal Audit Open Management Response Quarterly Report

Chief Financial Officer Heather Shawa presented management's responses to audits as follows:

### STATUS OF MANAGEMENT RESPONSES TO AUDITS JUNE 2018



In Accordance with Board Resolution #2014-07-05

#### Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Updating of job descriptions is well underway, with estimated project completion by 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	A plan for decoupling base and merit increases is nearing completion. The plan and corresponding instructional information, applicable to the fiscal year 2019 performance management cycle, will be finalized by 7/31/18.
52	COBIT Compliance	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	Of 56 items involved, 42 are being reported as complete, 10 on track, 3 overdue (pending legal review), and 1 ongoing. Verification of this information is underway.
58	Succession Planning	Internal Audit recommends that Succession Planning procedures be formally approved and updated annually.	March 2018	Human Resources	Updated Succession Planning procedures have been drafted and will be submitted for executive management approval by 7/31/18.
59	Succession Planning	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A focus group is currently piloting a tool to assist with identification of critical positions which will be implemented on an organization-wide basis by 12/31/18.
60	Succession Planning	Internal Audit supports training and development of succession candidates.	March 2018	Human Resources	Candidate assessment and development are underway, as part of the BWL Leadership Academy, and will continue through June 2019.

#### Closed Issues (since April 2018 report):

61	Cash Receipts <i>NEW</i>	Internal Audit discovered that the report of employees posting to their own account had not been able to be generated since the cybersecurity incident.	May 2018	Customer Service	In addition to the report being recreated and retroactively reviewed, management is periodically verifying that its review is a continuing effort.
62	Cash Receipts <i>NEW</i>	Access from lobby to cashiering area needed further restriction.	May 2018	Customer Service	Access was accordingly restricted.

## Proposed Amended Resolution for Internal Audit Management Response

CFO Shawa noted that the key change to the Resolution for Internal Audit Management Response is the status of reporting out in the finance committee from a minimum of quarterly to a minimum of biannually. It is proposed that the January and July meetings would be the official finance agenda items on the Finance Committee Meeting agendas. Internal tracking will still be updated monthly.

**Motion** by Commissioner Price, Seconded by Commissioner Graham, to forward the proposed Amended Resolution for Internal Audit Management Response as presented to the full Board for consideration.

**Action:** Motion Carried

## **Internal Auditor Status Report**

Internal Auditor Phil Perkins presented the Internal Audit Status Report.



## Overview

### Internal Audit Status Report

Presented by:  
Phil Perkins, Director of Internal Audit  
Finance Committee Meeting  
July 2018

- FY 2018 Audit Plan Progress Report
- Proposed FY 2019 Audit Plan
- Other Items



2

### FY 2018 Audit Plan Progress Report

#### Engagements Completed:

1. Follow-up Hiring Process Audit (FY17 carryover)
2. Payroll Management Audit (FY17 carryover)
3. Identity and Access Management Audit (FY17 carryover)
4. Water Production Data Management Audit
5. Succession Planning Audit
6. Cash Receipts Audit
7. Consulting – Payroll and Billing Controls
8. Surprise Cash Counts (2)
9. Employee Time Reporting Reviews (2)



3

### FY 2018 Audit Plan Progress Report, cont'd

#### Engagements in Progress:

1. Customer Arrangements/Third Party Payments Audit (almost complete, final report to be issued shortly)
2. Physical Security Audit (draft report out shortly)
3. Contract Signature Authority Compliance Audit (75% complete)



4

### Proposed FY 2019 Audit Plan - Background

#### Basis for plan:

1. Meetings with Executives and Staff to discuss risks and potential audit topics.
2. Risk assessments for each of 100-plus auditable activities at BWL.
3. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
4. Identified at least 26 potential audits to perform in FY 2019 and beyond.



5

### Proposed FY2019 Audit Plan - Background

#### Top 10 Engagements for FY 2019 (as discussed and agreed with senior management):

1. *Follow-up – IT Change Management*
2. *IT – Cybersecurity (software security or vulnerability management)*
3. *Power Purchase Agreements*
4. *Accounts Payable*
5. *BSMART – Organization Change Management (consulting)*
6. *Asset Management (consulting)*
7. *Metering Services*
8. *Vegetation Management*
9. *Procurement*
10. *Project Engineering – Planned Projects*



6

## Proposed FY 2019 Audit Plan

Planned Audits:	Estimated Hours
Follow-up – IT Change Management	300
IT Cybersecurity	300
Power Purchase Agreements	300
Accounts Payable	300
Metering Services	300
Vegetation Management	300
Procurement	300
Project Engineering – Planned Projects	300
<b>Other Engagements:</b>	
Consulting – BSMART Org Change Mgt	200
Consulting – Asset Management	200
Consulting – Other (TBD)	200
Surprise Cash Count (2)/Time Rpt Rev (2)	200
<b>Total Required Hours</b>	<b>3,200</b>



7

## Proposed FY 2018 Audit Plan, Cont'd

Available Resources:

Resource	Position	Available Hours
Phil Perkins	Director of Internal Audit	1,500
Charles Randall	Senior Internal Auditor	1,700
<b>Total Hours</b>		<b>3,200</b>



8

## Proposed FY 2019 Audit Plan, Cont'd

- Questions?
- Recommend Approval of FY 2019 Audit Plan



9

## Other Items

1. Internal Auditor Continuing Professional Education/Certification Status:
  - On target to complete all CPE requirements for CPA, CIA and CISA designations this year.
  - CPE will be reported to proper authorities so that certifications (and in the case of CPA, licensure) will be maintained through 2018 and beyond.
2. Internal Audit Charter – Annual Renewal
  - Proposed revisions are to better recognize:
    - The analysis of risks relating to the achievement of strategic objectives when developing audit plans.
    - The Core Principles for the Professional Practice of Internal Auditing\* as part of mandatory guidance for the internal auditing profession.



10

## Other Items, cont'd

\*Core Principles for the Professional Practice of Internal Auditing:

1. Demonstrates Integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence.
4. Aligns with strategies, objectives and risks of the organization.
5. Appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive and future-focused.
10. Promotes organizational improvement.



11

Commissioner Jester asked if the IT Department used a particular capability maturity model to define best practices. Mr. Perkins responded that the department uses the COBIT model, the control objectives for IT that is promulgated by the ISACA organization. CFO Shawa responded that the internal audit was on the COBIT and 52 recommendations were made and are being addressed.

**Motion** by Commissioner Louney, **Seconded** by Commissioner Graham to approve the Internal Audit Status Report as presented and accept the FY 19 Audit Plan and forward to the full Board for acceptance.

**Action:** Motion Carried.

**Proposed Revised Internal Audit Charter Resolution**

Internal Auditor Phil Perkins requested approval for the Revised Internal Audit Charter Resolution. Mr. Perkins noted that the analysis of risk is fine-tuned and core principles for professional practice of internal auditing have been added.

**Motion** by Commissioner Price, **Seconded** by Commissioner Graham to adopt the Revised Internal Audit Charter by Resolution as amended and forward to the full Board for consideration.

**Action:** Motion Carried.

**Other**

None.

**Adjourn**

**Motion** by Commissioner Louney to adjourn the meeting. Commissioner Ross adjourned the meeting at 7:19 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, 2018

# BOARD OF WATER AND LIGHT – CITY OF LANSING, MICHIGAN

## TABLE OF CONTENTS

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	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Other Communications with Those Charged with Governance	
Two Way Communication Regarding Your Audit	2 – 3
Required Communications by the Auditor with Those Charged with Governance	4 – 7
Management Representations	



**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT 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

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, 2018, 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 11, 2018

**OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT**

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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.

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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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, 2018, and have issued our report thereon dated September 11, 2018. 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 13, 2017.

## **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 BWL adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* in 2018. 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 Benassist Actuaries and Consultants. 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 Brown and Brown. 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 Benassist Actuaries and Consultants. 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.



**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, 2018, 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*.

***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 11, 2018

## **MANAGEMENT REPRESENTATIONS**



September 11, 2018

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

Dear Baker Tilly Virchow Krause, LLP:

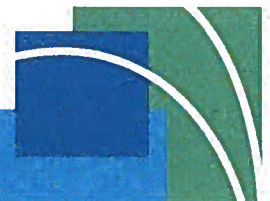
We are providing this letter in connection with your audit of the financial statements of the Lansing Board of Water and Light; including the Lansing Board of Water and Light Defined Benefit Plan, the Lansing Board of Water and Light Defined Contribution Plan, and the Lansing Board of Water and Light Retiree Benefit Plan (collectively the Lansing Board of Water and Light), as of June 30, 2018 and 2017 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

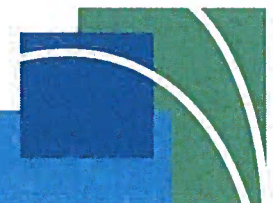
1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling 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

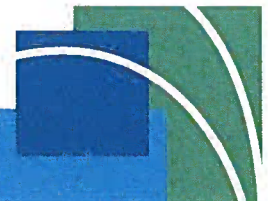
11. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested 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



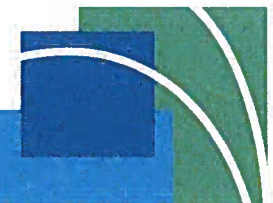
- c. Others where the fraud could have a material effect on the financial statements.
- 14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
- 15. We have no knowledge of known 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.



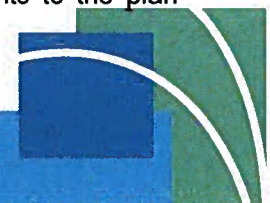
- e. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or leases in default, or events that may jeopardize the tax status) that legal counsel has advised us must be disclosed.
23. In regards to the nonattest services performed by you listed below, we have 1) accepted 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, net OPEB liability and related deferrals, and net pension asset and related deferrals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
40. We agree with the restatement presented in the current year's financial statements related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*.

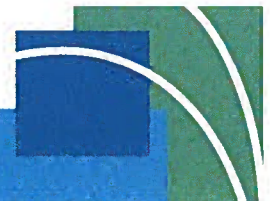
The following representations relate specifically to the employee benefit plans:

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





42. The defined benefit plan obtained its latest determination letter on November 4, 2011, in which the Internal Revenue Service stated that the plan, as then designed, was in compliance with the appropriate requirements of the Internal Revenue Code (IRC). We believe the plan is currently designed and being operated in compliance with the applicable requirement of the IRC.
43. 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. We believe the plan is currently designed and being operated in compliance with the applicable requirement of the IRC.
44. The retiree benefit plan received a letter from the Internal Revenue Service dated February 8, 2000 confirming its status as exempt from tax under the IRC. We believe the exemption letter remains valid.
45. We have no intentions to terminate any of the plans.
46. Related to the defined benefit plan:
  - a. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.
  - b. The plan administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the plan's net pension asset and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.
47. Related to the retiree medical plan:
  - a. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the annual employer contribution and other actuarially determined amounts in the financial statements.
  - b. The plan administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the plan's actuarial accrued liability and total OPEB liability (under GASB Statement No. 74) and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.
48. The following have been properly recorded or disclosed in the financial statements:
  - a. The actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.
  - b. No other changes occurred in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.





Hometown People. Hometown Power.

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49. The plans (and the trusts established under the plans) are qualified under the appropriate section of the Internal Revenue Code and intend to continue as qualified plans (and trusts). The plan sponsor has operated the plans and trusts in a manner that did not jeopardize this tax status.

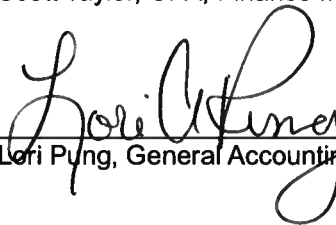
50. All required filings with the appropriate agencies have been made.

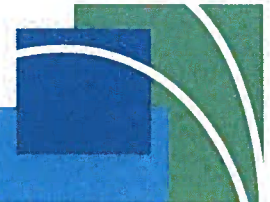
Sincerely,

Lansing Board of Water and Light

Signed:   
Heather Shawa, CFO

Signed:   
Scott Taylor, CPA, Finance Manager

Signed:   
Lori Pung, General Accounting Manager





# Board of Water and Light – City of Lansing, Michigan

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Financial Report  
with Additional Information  
As of and for the Years Ended June 30, 2018  
and 2017

# Board of Water and Light – City of Lansing, Michigan

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	Contents
<b>Independent Auditor's Report</b>	1-2
<b>Required Supplemental Information</b>	
<b>Management's Discussion and Analysis</b>	3-5
<b>Basic Financial Statements</b>	
Statements of Net Position	6-7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9-10
Pension Trust Funds – Statements of Net Position	11
Pension Trust Funds – Statements of Changes in Net Position	12
Notes to Financial Statements	13-68
<b>Required Supplemental Information</b>	69
Schedule of Changes in the Net Pension Asset	70
Schedule of Employer Contributions to the Net Pension Asset	71
Schedule of Changes in the Net OPEB Liability	72
Schedule of Employer Contributions to the Net OPEB Liability	73
<b>Additional Information</b>	74
Income Available for Revenue Bond Debt Retirement	75
Detail of Statements of Revenues and Expenses	76-77
Detail of Statements of Changes in Net Position	78
Pension Trust Funds – Detail of Statements of Net Position	79
Pension Trust Funds – Detail of Statement of Changes in Net Position	80-81

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Lansing Board of Water and Light enterprise fund and its fiduciary funds, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Lansing Board of Water and Light's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Lansing Board of Water and Light's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lansing Board of Water and Light's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lansing Board of Water and Light as of June 30, 2018 and 2017, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, Lansing Board of Water and Light has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2016. Net position as of June 30, 2016 has been restated due to the implementation. Our opinions are 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 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 11, 2018

# Lansing Board of Water and Light

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## Management's Discussion and Analysis

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light ("BWL"). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for the years ended June 30, 2018 and 2017.

### Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric energy to over 97,000 retail customers in the greater Lansing area, and wholesale customers through participation in the Midcontinent Independent System Operator, Inc. (MISO), which is BWL's regional electric grid. The BWL generated 67 percent of its retail and wholesale sales from existing generation assets. Additional electric generation was supplied through BWL's membership in the Michigan Public Power Agency, which includes BWL's partial ownership of Detroit Edison's Belle River Plant, and through MISO. The BWL maintains a diversified renewable energy portfolio which includes wind, solar, landfill gas, and hydro-electric generation. The combination of renewable energy generation and energy efficiency programs support BWL's adopted plan to provide 30% clean energy in 2020 and 40% in 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. Gross capital expenditures were \$92.3 and \$51.9 million in fiscal years 2018 and 2017, respectively.

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

Please refer to Independent Auditors' report.

# Lansing Board of Water and Light

## Management's Discussion and Analysis (Continued)

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

### Condensed Financial Information (dollars in millions)

	As of June 30			% Change
	2018	Restated 2017	2016	2017 to 2018
<b>Assets</b>				
Utility plant	\$ 719.3	\$ 680.4	\$ 690.7	% 5.7
Other assets	296.8	332.8	342.1	(10.8)
Total assets	1,016.1	1,013.2	1,032.8	0.3
<b>Deferred Outflow of Resources</b>	7.4	6.6	3.8	12.1
<b>Liabilities</b>				
Long-term liabilities	355.6	380.0	357.4	(6.4)
Other liabilities	61.3	56.6	57.1	8.3
Total liabilities	416.9	436.6	414.5	(4.5)
<b>Deferred Inflow of Resources</b>	36.2	26.9	26.0	34.6
<b>Net Position</b>				
Net investment in capital assets	418.1	369.5	367.1	13.2
Restricted for debt service	42.8	38.7	38.3	10.6
Unrestricted	109.6	148.2	190.7	(26.0)
Net position	\$ 570.5	\$ 556.4	\$ 596.1	% 2.5

Capital expenditures in FY2018 exceeded depreciation, impairments and retirements thereby increasing utility plant by \$38.9 million. Fiscal year 2017 balances were restated due to the implementation of GASB No. 75. Fiscal year 2016 balances are shown as originally reported. The changes in the Deferred Outflow/Inflow of Resources is attributable to GASB No. 75 net OPEB liability. These deferrals reflect differences between projected and actual experience, changes in actuarial assumptions, and differences between projected and actual investment earnings on plan investments. They are amortized through expense as described in Note 8.

Please refer to Independent Auditors' report.



# Lansing Board of Water and Light

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information (dollars in millions) (Continued)

	For the Year Ended June 30			% Change	
	2018	Restated 2017	2016	2017 to 2018	
<b>Result of Operations</b>					
Operating Revenue	\$ 353.1	\$ 371.4	\$ 360.9	%	(4.9)
Operating Expense	325.5	342.4	327.1		(4.9)
Nonoperating expense - Net	-13.4	-22.7	-32.9		(41.0)
<b>Changes in Net Position</b>	<b>\$ 14.1</b>	<b>\$ 6.4</b>	<b>\$ 0.9</b>	<b>%</b>	<b>120.3</b>

Operating revenue decreased by \$18.3 million primarily due to a decrease in wholesale sales with the remaining attributed to a decrease in retail demand. Net Income increased by \$7.7 million because of reduced impairments and reduced operating expense. FY2018 Nonoperating expense includes more than \$13.3 million in bonded debt interest expense. In FY2017 and FY2016 impairments of the Eckert and Erickson Power Stations, and Customer Care Initiative drove Nonoperating expense to uncharacteristically high levels.

**Budget** – The BWL Commissioners approved a \$267.3 million operating expense budget (excluding depreciation) for fiscal year 2018. Actual expenses (excluding depreciation) were \$261.5 million. The capital improvement budget, net of customer contributions in aid of construction, was \$139.5 million for FY2018, and actual net capital expenditures were \$88.9 million. The difference between the capital budget and actual spend is due to a change in the project timeline for a new combined cycle natural gas power plant.

**Financing Activities** – In June of 2018, Revenue Bond Anticipation Notes Series 2018 were issued to fund project start-up costs for a new combined cycle natural gas power plant. The 2018 Note Series will provide funding for up to \$100 million in project costs for a period of up to 18 months. Prior to the end of the 18-month period, Revenue Bonds will be issued to extinguish the outstanding notes and provide additional project funding for the plant and other system improvements. The new 250 MW plant is currently budgeted at \$450 million and is scheduled to begin operation in FY 2021.

Please refer to Independent Auditors' report.

# Board of Water and Light - City of Lansing, Michigan

## Statements of Net Position

	As of June 30	
	2018	Restated 2017
<b>Assets</b>		
<b>Current Assets</b>		
Restricted cash and investments (Notes 2 and 3)	\$ 50,550,600	\$ 47,380,541
Cash and investments (Notes 1 and 2)	48,127,904	57,522,888
Designated cash and investments (Notes 1 and 2)	88,774,893	108,059,622
Accounts receivable - Net (Note 1)	24,560,286	24,571,987
Estimated unbilled accounts receivable (Note 1)	19,748,294	17,334,540
Inventories (Note 1)	23,921,728	25,421,903
Other	4,742,077	4,400,379
Total current assets	260,425,782	284,691,860
<b>Other Assets</b>		
Recoverable environmental remediation (Note 6)	2,983,786	6,321,595
Special deposit (Note 1)	41,165	5,690,000
Net pension asset (Note 8)	6,616,482	9,029,155
Other (Note 1)	2,593,739	2,723,987
Total other assets	12,235,172	23,764,737
<b>Noncurrent Restricted Assets (Investments)</b> (Notes 2 and 3)	24,151,912	24,384,188
<b>Utility Plant</b> (Notes 1 and 4)		
Water	316,440,019	309,243,104
Electric	730,148,451	687,921,365
Steam	78,115,677	71,614,976
Chilled water	34,078,066	34,023,916
Common facilities	92,072,756	92,329,375
Total	1,250,854,969	1,195,132,736
Less accumulated depreciation	570,038,862	534,316,387
Net	680,816,107	660,816,349
Construction in progress (Note 10)	38,518,401	19,591,830
Total utility plant	719,334,508	680,408,179
Total assets	1,016,147,374	1,013,248,964
<b>Deferred Outflows of Resources -</b>		
Bond refunding loss being amortized	1,859,964	2,116,754
Net pension deferred outflows (Note 8)	1,932,329	-
Net OPEB deferred outflows (Note 8)	3,655,764	4,468,156
Total deferred outflows of resources	7,448,057	6,584,910

# Board of Water and Light - City of Lansing, Michigan

## Statements of Net Position (Continued)

	As of June 30	
	2018	Restated 2017
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 34,829,022	\$ 29,923,625
Current portion of long-term debt (Note 5)	9,360,459	9,614,677
Accrued payroll and related taxes	2,311,346	2,182,199
Customer deposits	2,202,779	2,072,804
Accrued compensated absences (Note 1)	4,810,006	4,874,356
Accrued interest	89,998	227,323
Accrued interest (payable from restricted assets)	<u>7,729,600</u>	<u>7,733,536</u>
Total current liabilities	61,333,210	56,628,520
<b>Compensated Absences</b> - Less current portion (Note 1)	7,313,587	7,305,531
<b>Other Long-term Liabilities</b>		
Workers' compensation	2,200,000	2,200,000
Environmental remediation liability (Note 9)	7,321,928	7,608,844
Net OPEB liability (Note 8)	19,447,441	31,989,335
Other	<u>1,375,055</u>	<u>2,073,349</u>
Total other long-term liabilities	30,344,424	43,871,528
<b>Long-term Debt</b> - Less current portion (Note 5)	<u>317,880,899</u>	<u>328,752,913</u>
Total liabilities	416,872,120	436,558,492
<b>Deferred Inflows of Resources</b>		
Revenue intended to cover future costs (Note 6)	17,921,615	18,879,619
Recoverable energy asset (Note 6)	4,908,441	1,237,957
Net pension deferred inflows (Note 8)	-	31,205
Net OPEB deferred inflows (Note 8)	<u>13,395,378</u>	<u>6,744,787</u>
Total deferred inflows of resources	36,225,434	26,893,568
<b>Net Position</b>		
Net investment in capital assets	418,105,026	369,476,728
Restricted for debt service (Note 3)	42,821,000	38,711,808
Unrestricted	<u>109,571,851</u>	<u>148,193,278</u>
Total net position	<u>\$ 570,497,877</u>	<u>\$ 556,381,814</u>

# Board of Water and Light - City of Lansing, Michigan

## Statements of Revenues, Expenses, and Changes in Net Position

	For the Year Ended June 30	
	2018	Restated 2017
<b>Operating Revenues (Note 1)</b>		
Water	\$ 41,524,143	\$ 40,738,054
Electric	293,261,408	312,925,177
Steam	12,072,017	11,404,174
Chilled water	6,225,356	6,362,308
Total operating revenues	353,082,924	371,429,713
<b>Operating Expenses</b>		
Production:		
Fuel, purchased power, and other operating expenses	142,679,119	161,787,983
Maintenance	16,474,970	18,725,293
Transmission and distribution:		
Operating expenses	7,929,917	10,139,726
Maintenance	19,983,487	15,839,208
Administrative and general	73,638,904	71,417,820
Return on equity (Note 7)	20,561,871	21,862,457
Depreciation (Note 1)	44,255,255	42,598,423
Total operating expenses	325,523,523	342,370,910
<b>Operating Income</b>	27,559,401	29,058,803
<b>Nonoperating Income (Expenses)</b>		
Investment income	834,087	914,829
Other (expense) income	(883,318)	478,719
Impairment on Power Stations (Note 4)	-	(9,337,129)
Bonded debt interest expense	(13,331,897)	(14,703,367)
Other interest expense	(62,210)	(51,446)
Total nonoperating expenses - Net	(13,443,338)	(22,698,394)
<b>Net Income (Changes in Net Position)</b>	14,116,063	6,360,409
<b>Net Position - Beginning of year as restated</b>	556,381,814	550,021,405
<b>Net Position - End of year</b>	<b>\$ 570,497,877</b>	<b>\$ 556,381,814</b>

## Board of Water and Light - City of Lansing, Michigan

### Statements of Cash Flows

	For the Year Ended June 30	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	358,158,868	377,684,831
Cash paid to suppliers	(202,605,345)	(214,663,814)
Cash paid to employees	(58,221,626)	(61,976,765)
Return on equity (Note 7)	(20,561,871)	(21,862,457)
Cash from customer deposits	129,975	(231,622)
Interest on customer deposits	(62,210)	(51,446)
Net cash provided by operating activities	76,837,791	78,898,727
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from new borrowings	50,001	2,201,662
Planned, bonded, and annual construction	(77,627,731)	(50,209,767)
Principal payments on debt	(9,883,645)	(11,024,805)
Interest on debt	(15,952,433)	(16,846,591)
Net cash used in capital and related financing activities	(103,413,808)	(75,879,501)
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale and maturity of investments	76,471,402	62,633,076
Interest received	639,673	863,383
Purchase of investments	(75,237,572)	(61,836,299)
Net cash provided by investing activities	1,873,503	1,660,160
<b>Net Increase in Cash and Cash Equivalents</b>	(24,702,514)	4,679,386
<b>Cash and Cash Equivalents - Beginning of year</b>	104,903,429	100,224,043
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 80,200,915</b>	<b>\$ 104,903,429</b>

# Board of Water and Light - City of Lansing, Michigan

## Statements of Cash Flows (Continued)

	For the Year Ended June 30	
	2018	2017
<b>Balance Sheet Classifications</b>		
Restricted cash and investments	\$ 50,550,600	\$ 47,380,541
Cash and investments	48,127,904	57,522,888
Designated cash and investments	88,774,893	108,059,622
Noncurrent restricted assets	24,151,912	24,384,188
Total cash and investments	\$ 211,605,309	\$ 237,347,239
Less noncash investments	(131,404,394)	(132,443,810)
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 80,200,915</b>	<b>\$ 104,903,429</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
	For the Year Ended June 30	
	2018	2017
Operating income	\$ 27,559,401	\$ 29,058,803
Adjustments to reconcile operating income to net cash from operating activities:		
Other nonoperating	(1,846,895)	970,484
Depreciation	44,255,255	42,598,423
Sewerage collection fees	963,577	988,652
Interest on customer deposits	(62,210)	(51,446)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	11,701	(1,403,328)
Unbilled accounts receivable (Note 1)	(2,413,754)	2,191,935
Inventories	1,500,175	(354,167)
Special deposit	5,648,835	2,845,000
Net pension asset	2,412,673	(4,765,165)
Other	3,126,359	4,831,671
(Decrease) increase in liabilities and deferred outflows/inflows of resources:		
Accounts payable and other accrued expenses	472,056	1,287,691
Customer deposits	129,975	(231,622)
Net pension asset deferrals	(1,963,534)	2,961,423
Other postemployment benefits liability and deferrals	(5,078,911)	(2,031,269)
Other	2,123,088	1,642
Total adjustments	49,278,390	49,839,924
Net cash provided by operating activities	<b>\$ 76,837,791</b>	<b>\$ 78,898,727</b>
<b>Noncash Capital and Financing Activities</b>		
Impairment on Power Station	\$ -	\$ 9,337,129
Refunding bonds issued	-	33,591,885

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Statements of Net Position

	As of June 30	
	2018	2017
<b>Assets</b>		
Receivable - investment interest receivable	\$ 553,132	\$ 578,207
Trade receivable - due from broker	11,853	134,461
Investments at fair value:		
Cash and money market trust fund	3,876,413	4,016,370
U.S. government obligations	34,494,449	38,104,494
Fixed income securities	47,121,007	45,862,887
Mutual funds	252,188,400	220,413,178
Stable value	35,135,911	35,270,975
Partnership	-	1,117,790
Common stock	62,052,966	74,379,228
Self-directed brokerage account	2,144,556	1,826,494
Participant notes receivable	3,649,872	3,899,938
Total investments	<u>440,663,574</u>	<u>424,891,354</u>
<b>Liabilities</b>		
Trade payable - due to broker	<u>154,385</u>	<u>105,260</u>
<b>Net Position</b> - Held in trust for pension and other employee benefits	<u>\$ 441,074,174</u>	<u>\$ 425,498,762</u>

## Board of Water and Light - City of Lansing, Michigan

### Pension Trust Funds - Statements of Changes in Net Position

	For the Year Ended June 30	
	2018	2017
<b>Increases</b>		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	\$ 17,115,698	\$ 35,624,583
Interest and dividend income	<u>14,665,987</u>	<u>10,178,156</u>
Net investment income (loss)	31,781,685	45,802,739
Employer contributions	16,930,215	15,626,391
Participant rollover contributions	1,648,509	1,051,032
Interest from participant notes receivable	<u>156,090</u>	<u>156,466</u>
Total increases	50,516,499	62,636,628
<b>Decreases</b>		
Retiree benefits paid	33,737,868	28,924,101
Loan defaults	209,514	72,325
Participants' note and administrative fees	<u>993,705</u>	<u>1,114,932</u>
Total decreases	<u>34,941,087</u>	<u>30,111,358</u>
<b>Change in Net Position Held in Trust</b>	15,575,412	32,525,270
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>		
Beginning of year	<u>425,498,762</u>	<u>392,973,492</u>
End of year	<u><b>\$ 441,074,174</b></u>	<u><b>\$ 425,498,762</b></u>



# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies

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

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

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

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

*Fiduciary funds*

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

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

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This standard was implemented effective July 1, 2016 for the enterprise fund.

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

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

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

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

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

#### **Specific Balances and Transactions**

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

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

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

	Carrying Value	
	2018	2017
Designated purpose:		
Coal inventory fluctuation	\$ 4,667,114	\$ 4,684,100
Litigation, environmental, and uninsured losses	18,867,177	18,936,117
Future water facilities	<u>3,802,319</u>	<u>3,816,307</u>
Subtotal	27,336,610	27,436,524
Special purpose – Future construction	<u>61,438,283</u>	<u>80,623,098</u>
Total	<u>\$ 88,774,893</u>	<u>\$ 108,059,622</u>

**Accounts Receivable** – Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2018 and 2017 are as follows:

	2018	2017
Customer receivables	\$ 20,118,859	\$ 18,680,026
Sewerage collections	2,367,863	2,282,599
Miscellaneous	3,573,564	5,109,362
Less allowance for doubtful accounts	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Net	<u>\$ 24,560,286</u>	<u>\$ 24,571,987</u>

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

**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 initial 5 year period. The remaining deposit was returned to the BWL during fiscal year 2018. The long-term other asset for the Consumer’s Energy deposit recorded was \$0 and \$5,690,000 in 2018 and 2017, respectively. The BWL has \$41,165 of miscellaneous other deposits at year end.

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

	<u>2018</u>	<u>2017</u>
Coal	\$ 10,207,127	\$ 10,692,936
Gas	478,312	631,759
Materials and supplies	<u>13,236,289</u>	<u>14,097,208</u>
Total	<u>\$ 23,921,728</u>	<u>\$ 25,421,903</u>

**Utility Plant** – The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred. 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 \$5,000 and an estimated life in excess of one year.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

**Depreciation** – Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives. The resulting provisions for depreciation in 2018 and 2017, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant	Life (Years)	Average Rate (Percent)	
		2018	2017
Water	4-100	2.1	1.8
Electric	4-50	4.3	4.0
Steam	5-50	3.2	3.4
Chilled water	5-50	3.5	3.5
Common facilities	4-50	5.2	4.6

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

**Accrued Compensated Absences** – The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$12,123,593 and \$12,179,887 as of June 30, 2018 and 2017, respectively.

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

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

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

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

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

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

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

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

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

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

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

**Unbilled Accounts Receivable and Revenue** – Unbilled accounts receivable at June 30, 2018 and 2017 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to July 1 will be recognized in the current period.

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



# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 – Significant Accounting Policies (Continued)

**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 \$8,448,086 and \$8,693,989 in 2018 and 2017, 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.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

Michigan Cooperative Liquid Assets Securities System (MI CLASS) reports the fair value of its underlying assets annually. Participants in the MI CLASS have the right to withdraw their funds in total on one day's notice. At June 30, 2018 and 2017, the fair value of the MI CLASS' assets were substantially equal to the utility's share. Michigan CLASS is rated AAAM by Standard and Poor's. The BWL also has cash and investments with Governments of Michigan Investing Cooperatively (GovMIC). The GovMIC cash and investments are recorded at amortized cost which approximates fair value.

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

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

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At June 30, 2018 and 2017, the BWL had \$19,701,949 and \$1,650,050, respectively, of bank deposits that were uninsured and uncollateralized. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

**Custodial Credit Risk of Investments** – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

At June 30, 2018, 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	\$132,387,636	Counterparty

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

**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, 2018, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1 year	1–5 years	6–10 years
Pooled investment funds	\$ 20,793,790	\$20,793,790	\$ –	\$ –
U.S. treasury bonds	88,550,287	26,479,857	62,070,430	–
U.S. agency bonds/notes	32,474,931	12,706,097	14,832,980	4,935,854
Commercial paper	4,177,853	4,177,853	–	–
Supra national agency bonds	7,184,565	380,005	6,804,560	–
Mutual funds	<u>22,671,252</u>	<u>22,671,252</u>	–	–
Total	<u>\$ 175,852,678</u>	<u>\$87,208,854</u>	<u>\$ 83,707,970</u>	<u>\$ 4,935,854</u>

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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	<u>\$ 200,137,148</u>	<u>\$96,159,888</u>	<u>\$ 102,855,162</u>	<u>\$ 1,122,098</u>

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

As of June 30, 2018, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$20,793,790	AAA	S&P
U.S. treasury bonds	88,550,287	AA+ (Aaa)	S&P (Moody's)
U.S. agency bonds/notes	32,474,931	AA+	S&P
Commercial paper	4,177,853	A1	S&P
Supra national agency bonds	7,184,565	AAA	S&P
Mutual funds	22,671,252	AAAM	S&P

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

As of June 30, 2017, 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** – Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. As of June 30, 2018 and 2017, the BWL's investment portfolio was concentrated as follows:

Investment	2018	2017
Fannie Mae	9%	11%
Freddie Mac	8%	9%
GovMIC	13%	2%

#### Fair Value

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

Investment	June 30, 2018			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	\$ -	\$ 88,550,287	\$ -	\$ 88,550,287
Supra National Agency Bonds	-	7,184,565	-	7,184,565
Federal Agency Mortgage-Backed Security	-	2,812,408	-	2,812,408
Federal Agency Collateralized Mortgage Obligation	-	4,058,966	-	4,058,966
Federal Agency Bond/Note	-	25,603,557	-	25,603,557
Commercial Paper	-	4,177,853	-	4,177,853
Total investments at fair value level	\$ -	\$ 132,387,636	\$ -	\$ 132,387,636

Investment	June 30, 2017			
	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
Total investments at fair value level	\$ -	\$ 155,533,684	\$ -	\$ 155,533,684

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

#### Fiduciary Fund Investments

##### Interest Rate Risk – Pension Trust Funds

At June 30, 2018, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
U.S. government or agency bond	\$ 34,494,449	13.65
Fixed income securities	47,121,007	13.19
Mutual Fund – Bond Funds	18,870,972	4.8
Money market trust funds	3,876,413	Less than 1 year

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

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
U.S. government or agency bond	\$ 38,104,494	13.64
Fixed income securities	45,862,887	13.19
Mutual Fund – Bond Funds	19,198,075	5.5
Money market trust funds	4,016,366	Less than 1 year

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

#### Credit Risk – Pension Trust Funds

As of June 30, 2018, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 145,098,563	Not rated	Not rated
U.S. government – implicitly guaranteed	13,481,910	AA+	S&P
U.S. government – implicitly guaranteed	416,305	AA-	S&P
Stable value	35,135,911	AA	S&P
Fixed income securities	4,234,231	AAA	S&P
Fixed income securities	18,869,605	AA+	S&P
Fixed income securities	2,573,800	AA	S&P
Fixed income securities	576,738	AA-	S&P
Fixed income securities	1,070,268	A+	S&P
Fixed income securities	4,502,135	A	S&P
Fixed income securities	3,680,285	A-	S&P
Fixed income securities	5,862,108	BBB+	S&P
Fixed income securities	3,983,612	BBB	S&P
Fixed income securities	1,663,516	BBB-	S&P
Fixed income securities	8,030	BB+	S&P
Fixed income securities	6,540	B+	S&P
Fixed income securities	90,140	B-	S&P
Money market trust funds	3,876,410	Not rated	Not rated



# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 136,451,476	Not rated	Not rated
U.S. government – implicitly guaranteed	15,099,899	AA+	S&P
U.S. government – implicitly guaranteed	412,491	AA+	S&P
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

#### Fair Value – Pension Trust Funds

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

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

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017:

*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.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

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

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

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017:

Investment Type	June 30, 2018			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ 3	\$ 3,876,410	\$ -	\$ 3,876,413
U.S. government obligations	-	34,494,449	-	34,494,449
Fixed income securities	-	47,121,007	-	47,121,007
Mutual funds	145,098,563	98,451,175	-	243,549,738
Common stocks	62,052,966	-	-	62,052,966
Self-directed brokerage account	<u>2,144,556</u>	<u>-</u>	<u>-</u>	<u>2,144,556</u>
Total investments by fair value level	<u>\$ 209,296,088</u>	<u>\$ 183,943,041</u>	<u>\$ -</u>	<u>393,239,129</u>
Investments measured at the net asset value (NAV)				
Stable value				35,135,911
Guaranteed lifetime income				<u>8,638,662</u>
Total investments measured at fair value				<u>\$ 437,013,702</u>
Investment Type	June 30, 2017			Total
	Level 1	Level 2	Level 3	
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	<u>1,826,494</u>	<u>-</u>	<u>-</u>	<u>1,826,494</u>
Total investments by fair value level	<u>\$ 212,657,202</u>	<u>\$ 163,454,439</u>	<u>\$ 1,117,790</u>	<u>377,229,431</u>
Investments measured at the net asset value (NAV)				
Stable value				35,270,975
Guaranteed lifetime income				<u>8,491,010</u>
Total investments measured at fair value				<u>\$ 420,991,416</u>

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

*Investments Measured Using NAV per Share Practical Expedient:* The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$35,135,911 and \$35,270,975 as of June 30, 2018 and 2017, respectively and the guaranteed lifetime income fund had a fair value of \$8,638,662 and \$8,491,010, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

### Note 3 – Restricted Assets

Restricted assets are required under the 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, 2018	Carrying Value	
		2018	2017
Current			
Operations and Maintenance Fund	\$ 34,236,000	\$ 82,175,293	\$ 88,852,839
Bond and Interest Redemption Fund	<u>16,314,600</u>	<u>16,503,211</u>	<u>16,050,590</u>
Total current	<u>50,550,600</u>	<u>98,678,504</u>	<u>104,903,429</u>
Noncurrent			
Bond Reserve Fund	<u>24,044,200</u>	<u>24,151,912</u>	<u>24,384,188</u>
Total noncurrent	<u>24,044,200</u>	<u>24,151,912</u>	<u>24,384,188</u>
Total	<u>\$ 74,594,800</u>	<u>\$ 122,830,416</u>	<u>\$ 129,287,617</u>

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the years ended 2018 and 2017.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 3 – Restricted Assets (Continued)

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** – By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** – Restricted for payment of the current portion of bond principal and interest on the 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, 2018, the cost basis in the fund was \$24,475,928.

### Note 4 – Utility Plant

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2018 and 2017:

#### Capital Asset Activity for Year Ended June 30, 2018

	<u>Capital Assets</u> <u>FY Start</u>	<u>Transfers</u>	<u>Acquisition</u>	<u>Retirement</u>	<u>Capital Assets</u> <u>FY End</u>
Water	\$ 309,243,104	\$ 2,446,138	\$ 5,369,363	\$ (618,586)	\$ 316,440,019
Electric	687,921,365	7,822,325	39,936,364	(5,531,603)	730,148,451
Steam	71,614,976	917,849	6,343,874	(761,022)	78,115,677
Chilled	34,023,916	-	54,150	-	34,078,066
Common	92,329,375	869,060	4,103,668	(5,229,347)	92,072,756
AUC	<u>19,591,830</u>	<u>(67,862,791)</u>	<u>86,789,362</u>	<u>-</u>	<u>38,518,401</u>
Total	<u>\$ 1,214,724,566</u>	<u>\$ (55,807,419)</u>	<u>\$142,596,781</u>	<u>\$ (12,140,558)</u>	<u>\$ 1,289,373,370</u>

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 4 – Utility Plant (Continued)

#### Accumulated Depreciation for Year Ended June 30, 2018

	<u>Accum. Depr.</u> <u>FY Start</u>	<u>Depreciation</u> <u>Transfer</u>	<u>Depr. / Amort.</u> <u>and Impairment</u> <u>for Year</u>	<u>Depreciation</u> <u>Retirement</u>	<u>Accum. Depr.</u> <u>FY End</u>
Water	\$ (101,610,740)	\$ 60,509	\$ (6,517,356)	\$ 402,202	\$ (107,665,385)
Electric	(355,112,374)	41,362	(30,373,332)	4,276,603	(381,167,741)
Steam	(18,877,713)	-	(2,410,469)	205,104	(21,083,078)
Chilled	(11,409,281)	-	(1,179,524)	-	(12,588,805)
Common	<u>(47,306,279)</u>	<u>(101,871)</u>	<u>(4,757,200)</u>	<u>4,631,497</u>	<u>(47,533,853)</u>
Total	<u>\$ (534,316,387)</u>	<u>\$ -</u>	<u>\$ (45,237,881)</u>	<u>\$ 9,515,406</u>	<u>\$ (570,038,862)</u>

**Non-depreciable assets** – Included in the table above are non-depreciable assets of \$1,210,196 for water, \$14,760,199 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.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 4 – Utility Plant (Continued)

#### Capital Asset Activity for Year Ended June 30, 2017

	<u>Capital Assets</u> <u>FY Start</u>	<u>Transfers</u>	<u>Acquisition</u>	<u>Retirement</u>	<u>Capital Assets</u> <u>FY End</u>
Water	\$ 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
AUC	15,583,201	(45,452,536)	49,461,165	-	19,591,830
CUC	76,079,000	-	-	(76,079,000)	-
<b>Total</b>	<b><u>\$ 1,359,565,095</u></b>	<b><u>\$ (45,452,536)</u></b>	<b><u>\$ 94,913,701</u></b>	<b><u>\$ (194,301,694)</u></b>	<b><u>\$ 1,214,724,566</u></b>

#### Accumulated Depreciation for Year Ended June 30, 2017

	<u>Accum. Depr.</u> <u>FY Start</u>	<u>Depreciation</u> <u>Transfer</u>	<u>Depr. / Amort.</u> <u>and Impairment</u> <u>for Year</u>	<u>Depreciation</u> <u>Retirement</u>	<u>Accum. Depr.</u> <u>FY End</u>
Water	\$ (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	-
<b>Total</b>	<b><u>\$ (668,868,675)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (45,694,353)</u></b>	<b><u>\$ 180,246,641</u></b>	<b><u>\$ (534,316,387)</u></b>

**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.



# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 5 – Long-term Debt

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

	<u>2018</u>	<u>2017</u>
Water Supply, Steam, Chilled Water and Electric Utility System Revenue Refunding Bonds, Series 2017A, due in annual principal installments beginning July 1, 2019 and continuing through July 1, 2032, plus interest at a rate of 5.00%. Original amount of issue \$30,365,000.	\$ 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.	16,560,000	18,025,000
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.	5,310,000	10,375,000
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.	249,985,000	249,990,000
Water Supply, Steam, Chilled Water, and Electric 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.	1,745,000	3,420,000

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 5 – Long-term Debt (Continued)

	<u>2018</u>	<u>2017</u>
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%. Original amount of issue \$13,225,385.	\$ 7,389,778	\$ 8,932,605
Lansing Economic Development Corp due in monthly installments of \$4,500 through 2022.	18,000	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.	3,410,245	3,536,560
Bond anticipation note for a future issuance of revenue bonds pertaining to a natural gas combined cycle facility and other system improvements.	<u>50,001</u>	<u>-</u>
Total	314,833,024	324,666,665
Less current portion	(9,360,459)	(9,614,677)
Plus unamortized premium	<u>12,408,334</u>	<u>13,700,925</u>
Total long-term portion	<u>\$ 317,880,899</u>	<u>\$ 328,752,913</u>

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 5 – Long-term Debt (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 9,360,459	\$ 15,598,174	\$ 24,958,633
2020	7,658,795	15,183,315	22,842,110
2021	7,942,341	14,851,321	22,793,662
2022	8,247,081	14,495,683	22,742,764
2023	8,623,538	14,094,419	22,717,957
2024–2028	49,498,683	63,842,850	113,341,533
2029–2033	62,226,465	50,244,683	112,471,148
2034–2038	80,391,527	32,642,713	113,034,240
2039–2043	80,631,527	14,536,231	95,167,758
2044–2045	<u>252,608</u>	<u>17,039</u>	<u>269,647</u>
Total	<u>\$ 314,833,024</u>	<u>\$ 235,506,428</u>	<u>\$ 550,339,452</u>

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, 2018, the balance of this reserve account was \$24,151,912 (see Note 3).

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 Bonds are payable in annual installments in the years 2019 through 2027, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds, or portions of the bonds in multiples of \$5,000 maturing or subject to mandatory redemption in the years 2028 and thereafter, shall be subject to redemption at the option of the BWL in such order of maturity as the BWL shall determine, and within a single maturity by lot, on any date on or after July 1, 2027 at par plus accrued interest to the fixed date for redemption.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 5 – Long-term Debt (Continued)

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

The 2012A Bonds are 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 Bonds are payable in annual installments in the years 2015 to 2022, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2022 shall be subject to redemption at the option of the BWL on or after July 1, 2021 as a whole or in part at any time and by lot within a maturity at par plus interest accrued to the redemption date.

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, 2018 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 325,875,924	\$ 12,491,666	\$ 338,367,590
Additions	-	50,001	50,001
Reductions	(9,502,588)	(1,673,645)	(11,176,233)
Ending balance	<u>\$ 316,373,336</u>	<u>\$ 10,868,022</u>	<u>\$ 327,241,358</u>
Due within one year	\$ 8,585,000	\$ 775,459	\$ 9,360,459

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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 \$550,339,452. During the current year, net revenues of the BWL were \$71,765,425 compared to the annual debt requirements of \$24,044,200.

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	<u>(47,033,914)</u>	<u>(139,805)</u>	<u>(47,173,719)</u>
Ending balance	<u>\$ 325,875,924</u>	<u>\$ 12,491,666</u>	<u>\$ 338,367,590</u>
Due within one year	\$ 8,210,000	\$ 1,404,677	\$ 9,614,677

#### **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. The bonds are callable on July 1, 2018. At June 30, 2018, \$34,680,000 of the bonds outstanding are considered defeased.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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 \$0 at June 30, 2018 and 2017, 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

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, 2018 and 2017 was \$620,768 and \$1,858,705, 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, 2018 and 2017 for additional sites was \$2,363,018 and \$4,462,890, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

#### Recoverable Cost Adjustments

During the year ended June 30, 2005, the Board of Commissioners approved the use of regulatory accounting as per GASB 62 in accounting for the BWL's power supply cost recovery (PSCR) adjustment, power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electric, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in recoverable assets of \$(4,908,441) and \$(1,237,957) at June 30, 2018 and 2017, 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.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

#### 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 \$5,652,720 and \$5,407,828 as of June 30, 2018 and 2017, 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 \$1,541,901 and \$1,762,172 as of June 30, 2018 and 2017, 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, 2018 and 2017 was \$10,726,994 and \$11,709,619, respectively.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 7 – Transactions with the City of Lansing, Michigan

**Operations** – The BWL recognized revenue of \$8,492,561 and \$8,154,863 in 2018 and 2017, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$839,024 and \$913,190 in 2018 and 2017, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$963,577 and \$988,652 in 2018 and 2017, respectively, included in other income.

**Return on Equity** – Effective July 1, 1992, the BWL entered into an agreement with the City to provide payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. The return on equity represents compensation to the City for a permanent easement granted to the BWL. Effective March 1, 2002, the formula to calculate the amount owed to the City for return on equity will also include wholesale revenue generated from the BWL's electric, water, steam, and chilled water utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City in semi-annual installments. Under terms of this agreement, the BWL paid to the City \$20,561,871 in 2018 and \$21,862,457 in 2017 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 ("Defined Benefit Plan"), and the BWL has a tax-qualified, single-employer, noncontributory, defined contribution public employee retirement pension plan ("Defined Contribution Plan"). The BWL also has a tax-qualified, single-employer, defined benefit plan to administer and fund retiree healthcare benefits ("Retiree Benefit Plan and Trust").



# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

#### Defined Benefit Plan

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

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

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2018 and 2017.

**Employees Covered by Benefit Terms** – At February 28, 2018 and 2017 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving benefits	352	368
Inactive plan members entitled to but not yet receiving benefits	4	6
Active plan members	<u>8</u>	<u>8</u>
Total	<u>364</u>	<u>382</u>

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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 retains an independent actuary to determine the annual contribution. The actuarially determined contribution is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2017 and 2018. Plan documents do not require participant contributions.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

**Net Pension Asset** – The components of the net pension asset of the BWL at June 30, 2018 and June 30, 2017 were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 55,751	\$ 56,895
Plan fiduciary net pension	<u>62,367</u>	<u>65,924</u>
Plan's net pension asset	<u>\$ (6,616)</u>	<u>\$ (9,029)</u>
Plan fiduciary net position, as a percentage of the total pension liability	111.87%	115.87%

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

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.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 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	-	-	-
Changes in assumptions	(383)	-	(383)
Net investment income	(857)	-	(857)
Benefit payments, including refunds	-	8,271	(8,271)
Administrative expenses	(7,472)	(7,472)	-
Miscellaneous other charges	-	(317)	317
Net changes	<u>(4,283)</u>	<u>482</u>	<u>(4,765)</u>
Balances at June 30, 2017	<u>\$ 56,895</u>	<u>\$ 65,924</u>	<u>\$ (9,029)</u>
Changes for the year:			
Service cost	\$ 50	\$ -	\$ 50
Interest	4,031	-	4,031
Differences between expected and actual experience	-	-	-
Changes in assumptions	(230)	-	(230)
Net investment income	1,419	-	1,419
Benefit payments, including refunds	-	3,112	(3,112)
Administrative expenses	(6,414)	(6,414)	-
Miscellaneous other charges	-	(255)	255
Net changes	<u>(1,144)</u>	<u>(3,557)</u>	<u>2,413</u>
Balance at June 30, 2018	<u>\$ 55,751</u>	<u>\$ 62,367</u>	<u>\$ (6,616)</u>

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018, the BWL recognized pension expense of \$811,903. At June 30, 2018, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,932,329	\$ –

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ –	\$ 31,205

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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		
2019	\$	1,408,903
2020		619,901
2021		(413,803)
2022		317,328
Total	\$	<u>1,932,329</u>

**Actuarial Assumptions** – The total pension liability in the June 30, 2018 and June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2018</u>	<u>2017</u>
Inflation	3.00%	3.00%
Salary increases	3.50%	3.50%
Investment rate of return	7.00%	7.50%

Mortality rates were based on the Healthy and Disabled, RP-2014 Mortality Table with MP-2017 Improvement Scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 8 active participants in fiscal year 2018 and 8 active participants in fiscal year 2017, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

**Discount Rate** – The discount rate used to measure the total pension liability was 7 percent and 7.5 percent in 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

#### 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, 2018 and 2017 for each major asset class included in the Defined Benefit Plan’s target asset allocation, as disclosed in the Defined Benefit Plan’s financial statements, are summarized in the following table:

<u>Asset Class</u>	<u>2018 Long-term Expected Real Rate of Return</u>	<u>2017 Long-term Expected Real Rate of Return</u>
Fixed income	2.74%	2.54%
Domestic equity	8.16%	7.94%
International equity	8.73%	8.66%
Real estate	5.91%	5.88%
Multi-sector	3.60%	–
Absolute return	3.82%	–

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018, calculated using the discount rate of 7.0 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (6.0 percent) or 1 percentage-point higher (8.0 percent) than the current rate:

	1% Decrease <u>(6.00%)</u>	Current Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Net pension liability (asset) of the BWL	\$ (1,539,264)	\$ (6,616,482)	\$ (9,466,780)

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 <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Net pension liability (asset) of the BWL	\$ (4,900,393)	\$ (9,029,155)	\$ (12,878,570)

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



# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

#### Defined Contribution Plan

The Lansing Board of Water and Light Employees' Defined Contribution Pension Plan and Trust ("Defined Contribution Plan") was established by the BWL in 1997 under Section 5-203 of the City Charter. The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997.

The Defined Contribution Plan issues a publicly available financial report. That report may be obtained by writing to the 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, 2018 and 2017, the BWL contributed \$6,534,888 and \$6,052,720, respectively. The BWL's contributions are recognized in the period that the contributions are due.

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

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

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

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

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

#### **Retiree Benefit Plan and Trust (OPEB)**

**Plan Description** – The Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light (“Retiree Benefit Plan and Trust”) is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL’s employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 728 participants eligible to receive benefits at June 30, 2018 and 658 participants eligible at June 30, 2017.

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, 2018 and 2017, the cost to BWL of maintaining the Retiree Benefit Plan was \$10,395,327 and \$9,573,671, of which respectively, was incurred as direct costs of benefits.

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

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

**Employees covered by benefit terms.** At June 30, 2018, the following employees were covered by the benefit terms:

Active plan members (not eligible to receive benefits)	703
Disabled participants	77
Retired participants	506
Surviving spouses	<u>145</u>
Total	<u>1,431</u>

At June 30, 2017, the following employees were covered by the benefit terms:

Active plan members (not eligible to receive benefits)	713
Disabled participants	76
Retired participants	453
Surviving spouses	<u>129</u>
Total	<u>1,371</u>

**Contributions** – Section 5–203 of the City Charter grants the authority to establish and amend the contribution requirement to the BWL. The BWL establishes its minimum contribution based on an actuarially determined rate. For the years ended June 30, 2018 and 2017, the actual contribution rates of the BWL were 18.7 percent and 17.6 percent of covered–employee payroll, respectively.

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

The BWL has chosen to use June 30, 2017 as its measurement date for fiscal year 2017. The June 30, 2017 reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of June 30, 2017. The June 30, 2017 total OPEB liability was determined by an actuarial valuation as of February 28, 2018.

**Actuarial Assumptions** – The total OPEB liability in the June 30, 2018 and June 30, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurements, unless otherwise specified:

Inflation	3.0 percent																																								
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit/productivity increases.																																								
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation																																								
Healthcare cost trend rates	<table><thead><tr><th><u>FYE</u></th><th><u>Medical / RX</u></th><th><u>Part B</u></th><th><u>Dental</u></th></tr></thead><tbody><tr><td>2019</td><td>9.00%</td><td>3.00%</td><td>5.00%</td></tr><tr><td>2020</td><td>8.50%</td><td>3.25%</td><td>4.75%</td></tr><tr><td>2021</td><td>8.00%</td><td>3.50%</td><td>4.50%</td></tr><tr><td>2022</td><td>7.50%</td><td>3.75%</td><td>4.25%</td></tr><tr><td>2023</td><td>7.00%</td><td>4.00%</td><td>4.00%</td></tr><tr><td>2024</td><td>6.50%</td><td>4.25%</td><td>4.00%</td></tr><tr><td>2025</td><td>6.00%</td><td>4.50%</td><td>4.00%</td></tr><tr><td>2026</td><td>5.50%</td><td>4.75%</td><td>4.00%</td></tr><tr><td>2027</td><td>5.00%</td><td>5.00%</td><td>4.00%</td></tr></tbody></table>	<u>FYE</u>	<u>Medical / RX</u>	<u>Part B</u>	<u>Dental</u>	2019	9.00%	3.00%	5.00%	2020	8.50%	3.25%	4.75%	2021	8.00%	3.50%	4.50%	2022	7.50%	3.75%	4.25%	2023	7.00%	4.00%	4.00%	2024	6.50%	4.25%	4.00%	2025	6.00%	4.50%	4.00%	2026	5.50%	4.75%	4.00%	2027	5.00%	5.00%	4.00%
<u>FYE</u>	<u>Medical / RX</u>	<u>Part B</u>	<u>Dental</u>																																						
2019	9.00%	3.00%	5.00%																																						
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2026	5.50%	4.75%	4.00%																																						
2027	5.00%	5.00%	4.00%																																						

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, adjusted to 2010 using MP-2017 projection scale).

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

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

BWL's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of the Board of Commissioners. It is the policy of the BWL to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2018 and 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Equities	40%
Non-U.S. Equities	20%
Global Fixed Income	25%
Commercial Real Estate	15%

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.7%
Multi-Sector	3.6
Absolute return	3.8
U.S. large cap equity	7.5
U.S. small cap equity	8.8
Non-U.S. equity	8.7
Core real estate	5.9

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

For the June 30, 2017 valuation, the long-term expected rate of return was 7.50%. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments was selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown. The final equivalent single discount rate used for the June 30, 2017 valuation was 7.50% with the expectation that BWL will continue contributing the actuarially determined contribution and/or paying for the pay-go cost.

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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 as of June 30, 2018 and 2017 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. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
<b>Balances at 6/30/2017</b>	<b>\$ 205,624,392</b>	<b>\$ 173,635,057</b>	<b>\$ 31,989,335</b>
<b>Changes for the year:</b>			
Service cost	4,826,401	-	4,826,401
Interest	15,039,052	-	15,039,052
Differences between expected and actual experience	(9,879,514)	-	(9,879,514)
Changes in assumptions	(1,727,939)	-	(1,727,939)
Contributions-employer	-	10,395,327	(10,395,327)
Contributions-employee	-	-	-
Net investment income	-	11,038,903	(11,038,903)
Benefit payments	(10,395,327)	(10,395,327)	-
Administrative expense	-	(634,336)	634,336
<b>Net changes</b>	<b>(2,137,327)</b>	<b>10,404,567</b>	<b>(12,541,894)</b>
<b>Balances at 6/30/2018</b>	<b>\$ 203,487,065</b>	<b>\$ 184,039,624</b>	<b>\$ 19,447,441</b>

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
<b>Balances at 6/30/2016</b>	<u>\$ 194,588,307</u>	<u>\$ 156,300,342</u>	<u>\$ 38,287,965</u>
<b>Changes for the year:</b>			
Service cost	3,130,487	–	3,130,487
Interest	14,226,364	–	14,226,364
Differences between expected and actual experience	5,280,548	–	5,280,548
Changes in assumptions	(2,027,643)	–	(2,027,643)
Contributions–employer	–	9,573,671	(9,573,671)
Contributions–employee	–	–	–
Net investment income	–	18,039,508	(18,039,508)
Benefit payments	(9,573,671)	(9,573,671)	–
Administrative expense	–	(704,793)	704,793
<b>Net changes</b>	<u>11,036,085</u>	<u>17,334,715</u>	<u>(6,298,630)</u>
<b>Balances at 6/30/2017</b>	<u><u>\$ 205,624,392</u></u>	<u><u>\$ 173,635,057</u></u>	<u><u>\$ 31,989,335</u></u>

**Sensitivity of the net OPEB liability (asset) to changes in the discount rate** – The following presents the net OPEB liability (asset) of BWL, as well as what BWL’s net OPEB liability (asset) would be if it were calculated using a discount rate that is 1–percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current discount rate (7.5 percent) as of June 30, 2018 and 2017:



# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

	June 30, 2018		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$43,845,533	\$19,447,441	\$(991,597)

	June 30, 2017		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$57,428,880	\$31,989,336	\$10,788,919

**Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates**  
 – The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1–percentage–point lower (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 as of June 30, 2018 and 2017:

	June 30, 2018		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(2,824,476)	\$19,447,441	\$46,517,181

	June 30, 2017		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$9,860,495	\$31,989,336	\$58,978,628

**OPEB plan fiduciary net position** – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light June 30, 2018 GASB 74/75 Report, issued July 25, 2018.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

For the year ended June 30, 2018, the Plan recognized OPEB expense of \$5,316,416. At June 30, 2018, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,655,674	\$ 8,331,001
Changes of assumptions	-	2,860,855
Net difference between projected and actual earnings on OPEB plan investments	-	<u>2,203,522</u>
 Total	 <u>\$ 3,655,674</u>	 <u>\$ 13,395,378</u>

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

Year Ended June 30:

2019	\$ (2,184,101)
2020	(2,184,101)
2021	(2,184,101)
2022	(926,831)
2023	(1,569,127)
Thereafter	(691,443)

For the year ended June 30, 2017, the Plan recognized OPEB expense of \$5,551,672. At June 30, 2017, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,468,156	\$ -
Changes of assumptions	-	1,715,698
Net difference between projected and actual earnings on OPEB plan investments	-	<u>5,029,089</u>
 Total	 <u>\$ 4,468,156</u>	 <u>\$ 6,744,787</u>

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Retirement Plans (Continued)

#### Other Postretirement Benefits

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

### Note 9 – Commitments and Contingencies

At June 30, 2018 and 2017, the BWL has two letters of credit in the amounts of \$817,000 and \$1,000,000 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL received landfill closure approval as well as interim remediation approval. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of \$7,321,928 and \$7,608,844 for the years ended June 30, 2018 and 2017, 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).

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 9 – Commitments and Contingencies (Continued)

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

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2018 and 2017 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling \$9,792,000 through December 31, 2020. 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 \$18,066,000 through December 2019.

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete various projects is approximately \$492,873,000 and \$120,767,000 at June 30, 2018 and 2017, respectively, including commitments on existing construction contracts approximating \$122,664,000 and \$12,676,000 at June 30, 2018 and 2017, respectively. These projects will be funded through revenue bonds and operational cash flow, including the project funds reported as other assets. There are additional commitments on projects in the process of being constructed that are not included above.

#### **Environmental Protection Agency (EPA) Notice of Finding of Violation**

On March 19, 2015, the EPA served the BWL with a Notice of Finding of Violation specifically focused on BWL's Erickson capital projects. As of the date of the financial statements the matter is still being negotiated. The BWL anticipates a settlement cost of \$275,000 and mitigation costs of \$400,000. The mitigation costs will be incurred over 3 years once the matter is settled and the entire cost is included in the financial statements as presented.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 10 – Power Supply Purchase

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

Under the terms of its contract, the BWL must make minimum annual payments equal to its share of 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.

<u>Year</u>	<u>Debt Service and Capital</u>	<u>Estimated Fixed Operating Costs</u>	<u>Total Required</u>
2019	\$ <u>          -</u>	\$ <u>13,737,534</u>	\$ <u>13,737,534</u>
Total	\$ <u>          -</u>	\$ <u>13,737,534</u>	\$ <u>13,737,534</u>

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

The BWL recognized expenses for 2018 and 2017 of \$36,653,466 and \$53,418,377, 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.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### **Note 10 – Power Supply Purchase (Continued)**

The BWL has entered into agreements with Energy Developments Limited, formerly Granger Electric Company, to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028 and September 30, 2028. The power to be purchased in the contract is 11.2 megawatts. The estimated total cost of electricity expected to be purchased for the remainder of these contracts is \$80,058,000.

### **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, 2018 and 2017. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

# Board of Water and Light – City of Lansing, Michigan

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 12 – Risk Management and Insurance

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

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

	Workers' Compensation			Health Insurance		
	2018	2017	2016	2018	2017	2016
Unpaid claims – Beginning of year	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000	\$ 1,167,466	\$ 1,167,466	\$ 1,188,172
Incurred claims, including claims incurred but not reported	128,524	86,951	348,038	14,494,539	13,838,436	13,797,887
Claim payments	<u>(128,524)</u>	<u>(86,951)</u>	<u>(348,038)</u>	<u>(14,494,539)</u>	<u>(13,838,436)</u>	<u>(13,818,593)</u>
Unpaid claims – End of year	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 1,167,466</u>	<u>\$ 1,167,466</u>	<u>\$ 1,167,466</u>

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

### Note 13 – Upcoming Pronouncements

GASB has approved GASB 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.

# Board of Water and Light – City of Lansing, Michigan

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 14 – Restatement of Net Position

The BWL adopted GASB Statement No. 75 effective July 1, 2016. Net position as of June 30, 2016 has been restated as follows:

Net Position – June 30, 2016 (as reported)	\$596,090,470
Reverse GASB No. 45 OPEB asset	(7,781,100)
Record GASB No. 75 net OPEB liability	<u>(38,287,965)</u>
Net Position – June 30, 2016 (as restated)	<u>\$550,021,405</u>

Net income of the prior year was increased by \$2,031,269.



## Required Supplemental Information

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

**Required Supplemental Information (Unaudited)  
Schedule of Changes in the Net Pension Asset  
Last Ten Fiscal Years  
(in thousands)**

	2018	2017	2016	2015	2014	2013	2012*	2011*	2010*	2009*
<b>Total Pension Liability</b>										
Service cost	\$ 50	\$ 113	\$ 223	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -	\$ -
Interest	4,031	4,317	4,625	4,919	4,751	5,085	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(230)	(383)	299	(1,093)	964	(1,716)	-	-	-	-
Changes in assumptions	1,419	(857)	(1,468)	-	4,538	-	-	-	-	-
Benefit payments, including refunds	(6,414)	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-
<b>Net Change in Total Pension Liability</b>	<b>(1,144)</b>	<b>(4,283)</b>	<b>(4,217)</b>	<b>(3,946)</b>	<b>2,061</b>	<b>(4,001)</b>	-	-	-	-
<b>Total Pension Liability - Beginning of year</b>	<b>56,895</b>	<b>61,178</b>	<b>65,395</b>	<b>69,341</b>	<b>67,280</b>	<b>71,281</b>	-	-	-	-
<b>Total Pension Liability - End of year</b>	<b>55,751</b>	<b>56,895</b>	<b>61,178</b>	<b>65,395</b>	<b>69,341</b>	<b>67,280</b>	-	-	-	-
<b>Plan Net Position</b>										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	3,112	8,272	47	1,771	14,243	10,170	-	-	-	-
Administrative expenses	(255)	(317)	(388)	(576)	(596)	(536)	-	-	-	-
Benefit payments, including refunds	(6,414)	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Net change in Net Position Held in Trust</b>	<b>(3,557)</b>	<b>482</b>	<b>(8,237)</b>	<b>(6,850)</b>	<b>5,106</b>	<b>1,857</b>	-	-	-	-
<b>Net Position Restricted for Pensions - Beginning of year</b>	<b>65,924</b>	<b>65,442</b>	<b>73,679</b>	<b>80,529</b>	<b>75,424</b>	<b>73,567</b>	-	-	-	-
<b>Net Position Restricted for Pensions - End of year</b>	<b>62,367</b>	<b>65,924</b>	<b>65,442</b>	<b>73,679</b>	<b>80,530</b>	<b>75,424</b>	-	-	-	-
<b>BWL Net Pension Asset - Ending</b>	<b>\$ (6,616)</b>	<b>\$ (9,029)</b>	<b>\$ (4,264)</b>	<b>\$ (8,284)</b>	<b>\$ (11,189)</b>	<b>\$ (8,144)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan Net Position as a % of Total Pension Liability</b>	111.87%	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ -	\$ -	\$ -	\$ -
<b>BWL's Net Pension Asset as a % of Covered Employee Payroll</b>	(1,097%)	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %	- %	- %

\*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2009 - 2012 is not available and this schedule will be presented on a prospective basis.

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

**Required Supplemental Information (Unaudited)  
Schedule of Employer Contributions to the Net Pension Asset  
Last Ten Fiscal Years  
(in thousands)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	86	2,109	-
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 603</b>	<b>\$ 586</b>	<b>\$ 772</b>	<b>\$ 1,018</b>	<b>\$ 1,225</b>	<b>\$ 1,684</b>	<b>\$ 2,101</b>	<b>\$ 2,398</b>	<b>\$ 2,660</b>	<b>\$ 3,089</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>3.59%</b>	<b>79.29%</b>	<b>- %</b>

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

**Required Supplemental Information (Unaudited)  
Schedule of Changes in the Net OPEB Liability  
Last Ten Fiscal Years  
(in thousands)**

	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*	2009*
<b>Total OPEB Liability</b>										
Service cost	\$ 4,827	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	15,039	14,226	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(9,880)	5,281	-	-	-	-	-	-	-	-
Changes in assumptions	(1,728)	(2,027)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(10,395)	(9,574)	-	-	-	-	-	-	-	-
<b>Net Change in Total OPEB Liability</b>	(2,137)	11,036	-	-	-	-	-	-	-	-
<b>Total OPEB Liability - Beginning of year</b>	<u>205,624</u>	<u>194,588</u>	-	-	-	-	-	-	-	-
<b>Total OPEB Liability - End of year</b>	203,487	205,624	-	-	-	-	-	-	-	-
<b>Trust Net Position</b>										
Contributions - Employer	10,395	9,574	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	11,039	18,040	-	-	-	-	-	-	-	-
Administrative expenses	(634)	(705)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(10,395)	(9,574)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Net change in Net Position Held in Trust</b>	10,405	17,335	-	-	-	-	-	-	-	-
<b>Trust fiduciary net position - Beginning of year</b>	<u>173,635</u>	<u>156,300</u>	-	-	-	-	-	-	-	-
<b>Trust fiduciary net position - End of year</b>	184,040	173,635	-	-	-	-	-	-	-	-
<b>BWL Net OPEB Liability - Ending</b>	<u>\$ 19,447</u>	<u>\$ 31,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Trust Fiduciary Net Position as a % of Total OPEB Liability</b>	90.44%	84.44%	- %	- %	- %	- %	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 55,650	\$ 54,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>BWL's Net OPEB Liability as a % of Covered Employee Payroll</b>	34.95%	58.82%	- %	- %	- %	- %	- %	- %	- %	- %

\*GASB Statement No. 75 was implemented as of June 30, 2016. Information from 2009 - 2016 is not available and this schedule will be presented on a prospective basis.

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

**Required Supplemental Information (Unaudited)  
Schedule of Employer Contributions to the Net OPEB Liability  
Last Ten Fiscal Years  
(in thousands)**

Fiscal Year Ended	Employer Contributions		Difference of Required to Actual Contributions	Covered Employee Payroll	Percentage of Actual Contributions to Covered Payroll
	Required	Actual			
6/30/2009*	\$ 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%
6/30/2018	7,535	10,395	2,860	55,650	19%

\*GASB Statement No. 75 was implemented as of June 30, 2016. Information from 2009 - 2010 is not available and this schedule will be presented on a prospective basis.

## Additional Information

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## **Board of Water and Light - City of Lansing, Michigan**

### **Income Available for Revenue Bond Debt Retirement**

	<u>For the Year Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
<b>Income</b> - Before capital contributions per statement of revenues, expenses, and changes in net position	\$ 14,116,063	\$ 6,360,409
<b>Adjustments to Income</b>		
Depreciation and impairment	44,255,255	51,935,552
Interest on long-term debt:		
Notes	62,210	51,446
Revenue bonds	<u>13,331,897</u>	<u>14,703,367</u>
Total additional income	<u>57,649,362</u>	<u>66,690,365</u>
<b>Income Available for Revenue Bonds and Interest Redemption</b>	<b><u>\$ 71,765,425</u></b>	<b><u>\$ 73,050,774</u></b>
<b>Debt Retirement Pertaining to Revenue Bonds</b>		
Principal	\$ 8,585,000	\$ 8,210,000
Interest	<u>15,295,875</u>	<u>16,049,511</u>
Total	<b><u>\$ 23,880,875</u></b>	<b><u>\$ 24,259,511</u></b>
<b>Percent Coverage of Revenue Bonds and Interest Requirements</b>	<b><u>301</u></b>	<b><u>301</u></b>

## Board of Water and Light - City of Lansing, Michigan

	Combined		Water	
	2018	2017	2018	2017
<b>Operating Revenues</b>				
Water	\$ 41,524,143	\$ 40,738,054	\$ 41,524,143	\$ 40,738,054
Electric:				
Retail	271,414,998	280,955,243	-	-
Sales for resale	21,846,410	31,969,934	-	-
Steam	12,072,017	11,404,174	-	-
Chilled water	6,225,356	6,362,308	-	-
	<u>353,082,924</u>	<u>371,429,713</u>	<u>41,524,143</u>	<u>40,738,054</u>
Total operating revenues				
<b>Operating Expenses</b>				
Production:				
Fuel, purchased power, and other operating expenses	142,679,119	161,787,983	8,900,728	8,782,872
Maintenance	16,474,970	18,725,293	3,303,312	3,074,073
Transmission and distribution:				
Operating expenses	7,929,917	10,139,726	1,639,903	1,392,291
Maintenance	19,983,487	15,839,208	3,211,987	2,827,509
Administrative and general	73,638,904	71,417,820	12,964,161	10,966,026
Return on Equity	20,561,871	21,862,457	2,465,989	2,429,849
Depreciation	44,255,255	42,598,423	6,717,444	6,657,053
	<u>325,523,523</u>	<u>342,370,910</u>	<u>39,203,524</u>	<u>36,129,673</u>
Total operating expenses				
<b>Operating Income</b>	27,559,401	29,058,803	2,320,619	4,608,381
<b>Nonoperating Income (Expenses)</b>				
Investment income	834,087	914,829	(28,686)	98,653
Other (expense) income	(883,318)	478,719	733,527	923,068
Impairment on Eckert Plant	-	-	-	-
Impairment on Erickson Plant	-	(9,337,129)	-	-
Bonded debt interest expense	(13,331,897)	(14,703,367)	(1,391,610)	(1,758,663)
Amortization - Central Utilities Complex	-	-	-	-
Other interest expense	(62,210)	(51,446)	(7,070)	(4,419)
	<u>(13,443,338)</u>	<u>(22,698,394)</u>	<u>(693,839)</u>	<u>(741,361)</u>
Total nonoperating expense				
<b>Net Income (Loss)</b>	<b>\$ 14,116,063</b>	<b>\$ 6,360,409</b>	<b>\$ 1,626,780</b>	<b>\$ 3,867,020</b>



**Detail of Statements of Revenues and Expenses  
For the Years Ended June 30, 2018 and 2017**

Electric		Steam		Chilled Water	
2018	2017	2018	2017	2018	2017
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
271,414,998	280,955,243	-	-	-	-
21,846,410	31,969,934	-	-	-	-
-	-	12,072,017	11,404,174	-	-
-	-	-	-	6,225,356	6,362,308
293,261,408	312,925,177	12,072,017	11,404,174	6,225,356	6,362,308
127,702,294	146,768,880	4,637,601	4,450,412	1,438,496	1,785,819
12,257,504	14,887,491	722,446	409,666	191,708	354,063
5,977,257	8,442,706	312,757	304,729	-	-
16,329,536	12,569,323	441,964	442,376	-	-
58,806,770	58,674,904	1,300,400	1,346,580	567,573	430,310
17,067,336	18,418,803	652,087	625,702	376,459	388,103
33,825,801	32,004,536	2,525,735	2,538,286	1,186,275	1,398,548
271,966,498	291,766,643	10,592,990	10,117,751	3,760,511	4,356,843
21,294,910	21,158,534	1,479,027	1,286,423	2,464,845	2,005,465
848,930	695,357	22,278	88,579	(8,435)	32,240
(1,289,108)	(270,184)	(549,009)	(397,548)	221,272	223,383
-	-	-	-	-	-
-	(9,337,129)	-	-	-	-
(9,508,962)	(10,339,513)	(1,855,996)	(1,966,111)	(575,329)	(639,080)
-	-	-	-	-	-
(55,119)	(47,003)	(21)	(24)	-	-
(10,004,259)	(19,298,472)	(2,382,748)	(2,275,104)	(362,492)	(383,457)
<b>\$ 11,290,651</b>	<b>\$ 1,860,062</b>	<b>\$ (903,721)</b>	<b>\$ (988,681)</b>	<b>\$ 2,102,353</b>	<b>\$ 1,622,008</b>

## Board of Water and Light - City of Lansing, Michigan

### Detail of Statements of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
<b>Net Position</b> - June 30, 2016, as restated	\$ 550,021,405	\$ 88,611,523	\$ 461,923,972	\$ (3,968,012)	\$ 3,453,922
Income (loss) before contributions	<u>6,360,409</u>	<u>3,867,020</u>	<u>1,860,062</u>	<u>(988,681)</u>	<u>1,622,008</u>
<b>Net Position</b> - June 30, 2017	556,381,814	92,478,543	463,784,034	(4,956,693)	5,075,930
Income (loss) before contributions	<u>14,116,063</u>	<u>1,626,780</u>	<u>11,290,651</u>	<u>(903,721)</u>	<u>2,102,353</u>
<b>Net Position</b> - June 30, 2018	<u>\$ 570,497,877</u>	<u>\$ 94,105,323</u>	<u>\$ 475,074,685</u>	<u>\$ (5,860,414)</u>	<u>\$ 7,178,283</u>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Detail of Statements of Net Position

As of June 30, 2018				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Assets</b>				
Receivable - investment interest receivable	\$ -	\$ 148,763	\$ 404,369	\$ 553,132
Trade receivable - due from broker	-	11,853	-	11,853
Investments at fair value:				
Cash and money market trust fund	-	1,890,701	1,985,712	3,876,413
U.S. government obligations	-	7,966,488	26,527,961	34,494,449
Fixed income securities	-	12,372,866	34,748,141	47,121,007
Mutual funds	153,737,225	26,341,508	72,109,667	252,188,400
Stable value	35,135,911	-	-	35,135,911
Partnership	-	-	-	-
Common stock	-	13,634,806	48,418,160	62,052,966
Self-directed brokerage account	2,144,556	-	-	2,144,556
Participant notes receivable	3,649,872	-	-	3,649,872
<b>Total investments</b>	<b>194,667,564</b>	<b>62,206,369</b>	<b>183,789,641</b>	<b>440,663,574</b>
<b>Liabilities</b>				
Trade payable - due to broker	-	-	154,385	154,385
<b>Net Position - Held in trust for pension and other employee benefits</b>	<b>\$ 194,667,564</b>	<b>\$ 62,366,985</b>	<b>\$ 184,039,625</b>	<b>\$ 441,074,174</b>

As of June 30, 2017				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Assets</b>				
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
<b>Total investments</b>	<b>185,939,893</b>	<b>65,736,285</b>	<b>173,215,176</b>	<b>424,891,354</b>
<b>Liabilities</b>				
Trade payable - due to broker	-	11,533	93,727	105,260
<b>Net Position - Held in trust for pension and other employee benefits</b>	<b>\$ 185,939,893</b>	<b>\$ 65,923,813</b>	<b>\$ 173,635,056</b>	<b>\$ 425,498,762</b>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Detail of Statement of Changes in Net Position For the Year Ended June 30, 2018

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	\$ 8,851,973	\$ 1,521,207	\$ 6,742,518	\$ 17,115,698
Interest and dividend income	<u>8,778,719</u>	<u>1,590,883</u>	<u>4,296,385</u>	<u>14,665,987</u>
Net investment income (loss)	17,630,692	3,112,090	11,038,903	31,781,685
Employer contributions	6,534,888	-	10,395,327	16,930,215
Participant rollover contributions	1,648,509	-	-	1,648,509
Interest from participant notes receivable	<u>156,090</u>	<u>-</u>	<u>-</u>	<u>156,090</u>
Total increases	25,970,179	3,112,090	21,434,230	50,516,499
<b>Decreases</b>				
Retiree benefits paid	16,928,587	6,413,954	10,395,327	33,737,868
Loan defaults	209,514	-	-	209,514
Participants' note and administrative fees	<u>104,407</u>	<u>254,964</u>	<u>634,334</u>	<u>993,705</u>
Total decreases	<u>17,242,508</u>	<u>6,668,918</u>	<u>11,029,661</u>	<u>34,941,087</u>
<b>Change in Net Position Held in Trust</b>	8,727,671	(3,556,828)	10,404,569	15,575,412
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	<u>185,939,893</u>	<u>65,923,813</u>	<u>173,635,056</u>	<u>425,498,762</u>
End of year	<u>\$ 194,667,564</u>	<u>\$ 62,366,985</u>	<u>\$ 184,039,625</u>	<u>\$ 441,074,174</u>

# Board of Water and Light - City of Lansing, Michigan

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

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
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	<u>4,144,461</u>	<u>1,718,523</u>	<u>4,315,172</u>	<u>10,178,156</u>
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	<u>156,466</u>	<u>-</u>	<u>-</u>	<u>156,466</u>
Total increases	26,751,775	8,271,675	27,613,178	62,636,628
<b>Decreases</b>				
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	<u>93,067</u>	<u>317,072</u>	<u>704,793</u>	<u>1,114,932</u>
Total decreases	<u>12,043,197</u>	<u>7,789,697</u>	<u>10,278,464</u>	<u>30,111,358</u>
<b>Change in Net Position Held in Trust</b>	14,708,578	481,978	17,334,714	32,525,270
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	<u>171,231,315</u>	<u>65,441,835</u>	<u>156,300,342</u>	<u>392,973,492</u>
End of year	<u>\$ 185,939,893</u>	<u>\$ 65,923,813</u>	<u>\$ 173,635,056</u>	<u>\$ 425,498,762</u>

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

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**Financial Report  
with Required Supplementary Information  
As of and for the Years Ended June 30, 2018 and 2017**

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

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	Contents
<b>Independent Auditors' Report</b>	1-2
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis	3-5
<b>Financial Statements</b>	
Statement of Plan Fiduciary Net Position	6
Statement of Changes in Plan Fiduciary Net Position	7
Notes to Financial Statements	8-22
<b>Required Supplementary Information</b>	
Schedule of Changes in the BWL's Net Pension Asset and Related Ratios	23
Schedule of Employer Contributions	24
Note to Required Supplementary Information	25
Schedule of Investment Returns	26

## INDEPENDENT AUDITORS' REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Plan for Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions ("Plan") as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary position of the Plan as of June 30, 2018 and 2017, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
September 11, 2018

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

## Required Supplementary Information (Unaudited) Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the 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:

	2018	2017	2016
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets held in trust:			
Money market collective trust fund	\$ 1,890,701	\$ 1,088,909	\$ 746,554
U.S. government obligations	7,966,488	9,053,469	7,565,160
Fixed income securities	12,372,866	12,156,276	10,491,022
Mutual funds	26,341,508	22,381,599	7,908,757
Partnership	-	1,117,790	1,101,086
Common stock	13,634,806	19,938,242	37,486,031
Trade Receivable due from Broker	11,853	46,051	-
Interest and dividend receivable	148,763	153,010	143,225
Total assets held in trust	<u><b>\$ 62,366,985</b></u>	<u><b>\$ 65,935,346</b></u>	<u><b>\$ 65,441,835</b></u>
Liabilities - Accrued liabilities	\$ -	\$ 11,533	\$ -
Net position restricted for pension	<u>62,366,985</u>	<u>65,923,813</u>	<u>65,441,835</u>
Total liabilities and net position	<u><b>\$ 62,366,985</b></u>	<u><b>\$ 65,935,346</b></u>	<u><b>\$ 65,441,835</b></u>
Changes in net position:			
Net investment income (loss)	\$ 3,112,090	\$ 8,271,675	\$ 46,762
Benefits payments	(6,413,954)	(7,472,625)	(7,895,766)
Administrative fees	(254,964)	(317,072)	(388,495)
Net change in net position	<u><b>\$ (3,556,828)</b></u>	<u><b>\$ 481,978</b></u>	<u><b>\$ (8,237,499)</b></u>

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

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## Management's Discussion and Analysis (Continued)

During fiscal year 2018, net investment gain was \$3,112,090. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

Employer contributions were \$0 in fiscal year 2018 according to the Board of Water and Light – City of Lansing, Michigan's (the "BWL") actuarially determined contribution (ADC) as determined by the BWL's actuary.

Benefit payments in fiscal year decreased by \$1.1 million to \$6.4 million. This was due to a decrease in funds distributed in the form of lump-sum payouts upon retirement in fiscal year 2018 as compared to fiscal year 2017.

### 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 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	20%
Global Fixed Income	40%
Commercial Real Estate	5%

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

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## Management's Discussion and Analysis (Continued)

### Future Events

The Plan is currently overfunded, with a funded ratio (fiduciary net position divided by total pension liability) of 112 percent. This funding level results in an annual pension expense of \$0 for fiscal year 2018. The BWL does not expect to make contributions to the trust in fiscal year 2019.

The Plan expects to make annual withdrawals of approximately \$6,000,000 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.

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

## Statement of Plan Fiduciary Net Position

	As of June 30	
	2018	2017
<b>Assets</b>		
Investments at fair value:		
Cash and money market trust fund	\$ 1,890,701	\$ 1,088,909
U.S. government obligations	7,966,488	9,053,469
Fixed income securities	12,372,866	12,156,276
Mutual funds	26,341,508	22,381,599
Partnership	-	1,117,790
Common stocks	13,634,806	19,938,242
Total investments at fair value	62,206,369	65,736,285
Trade receivable - due from broker	11,853	46,051
Receivable - investment interest receivable	148,763	153,010
Total assets	62,366,985	65,935,346
<b>Liabilities</b>		
Trade payable - due to broker	-	11,533
<b>Net Position Restricted for Pensions</b>	<b>\$ 62,366,985</b>	<b>\$ 65,923,813</b>

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

## Statement of Changes in Plan Fiduciary Net Position

	For the Year Ended June 30	
	2018	2017
<b>Additions</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 1,521,207	\$ 6,553,152
Interest and dividend income	<u>1,590,883</u>	<u>1,718,523</u>
Total investment income	<u>3,112,090</u>	<u>8,271,675</u>
<b>Deductions</b>		
Retiree benefits paid	6,413,954	7,472,625
Administrative expenses	<u>254,964</u>	<u>317,072</u>
Total deductions	<u>6,668,918</u>	<u>7,789,697</u>
<b>Net Increase (Decrease) in Net Position</b>	(3,556,828)	481,978
<b>Net Position Restricted for Pensions</b>		
Beginning of year	<u>65,923,813</u>	<u>65,441,835</u>
End of year	<u><b>\$ 62,366,985</b></u>	<u><b>\$ 65,923,813</b></u>

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## 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 (“Plan”), which is a noncontributory single-employer defined benefit, public employee retirement system established and administered by the BWL under Section 5-203 of the City Charter. A participant’s interest shall be fully vested when the participant has been credited with seven years of vesting service. The Plan was established in 1939 and has been amended several times, with the latest amendment taking effect on July 1, 2010. Participants should refer to the plan agreement for a more complete description of the Plan’s provisions.

### **Accounting and Reporting Principles**

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

### **Basis of Accounting**

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

### **Report Presentation**

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

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

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 1 - Summary of Significant Accounting Policies (Continued)

### Report Presentation (Continued)

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

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

**Expenses** – Substantially all 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.

**Effect of New Accounting Standards on Current Period Financial Statements** – GASB has approved GASB Statement No. 84, Fiduciary Activities. When it becomes effective, application of this standard may restate portions of these financial statements.

## Note 2 - Plan Description

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

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



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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 2 - Plan Description (Continued)

**Plan Membership** – At February 28, 2018 and February 28, 2017 (the most recent actuarial valuation for funding purposes), plan membership consisted of the following:

	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving benefits	352	368
Inactive plan members entitled to but not yet receiving benefits	4	6
Active plan members	<u>8</u>	<u>8</u>
Total	<u><u>364</u></u>	<u><u>382</u></u>

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017. 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.

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

Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## 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, 2018:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 7,966,488	12.19 Years
Fixed income securities	12,372,866	12.46 Years
Money market trust fund	1,890,701	Less than 1 year
Portfolio weighted average maturity	-	12.35 years

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

**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, 2018:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations – implicitly guaranteed	\$ 2,767,597	AA+	S&P
U.S. government obligations – implicitly guaranteed	58,089	AA-	S&P
Fixed income securities	893,567	AAA	S&P
Fixed income securities	5,410,018	AA+	S&P
Fixed income securities	657,692	AA	S&P
Fixed income securities	147,017	AA-	S&P
Fixed income securities	302,057	A+	S&P
Fixed income securities	1,139,433	A	S&P
Fixed income securities	829,820	A-	S&P
Fixed income securities	1,616,048	BBB+	S&P
Fixed income securities	901,500	BBB	S&P
Fixed income securities	377,545	BBB-	S&P
Fixed income securities	8,030	BB+	S&P
Fixed income securities	90,140	B-	S&P
Money market trust funds	1,890,701	Not rated	Not rated

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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 – implicitly guaranteed	\$ 3,138,615	AA+	S&P
U.S. government obligations – implicitly guaranteed	57,557	AA–	S&P
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 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, 2018 and 2017, there were no excess pension plan assets available for transfer.

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 5 - Tax Status

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

### Note 6 - Plan Investments - Policy and Rate of Return

**Investment Policy** – The Plan's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the BWL's adopted asset allocation policy as of June 30, 2018 and 2017:

<u>Asset Class</u>	<u>2018 Target Allocation</u>	<u>2017 Target Allocation</u>
Global Fixed Income	40%	35%
U.S. Equities	35%	35%
Non-U.S. Equities	20%	10%
Commercial real estate	5%	10%
Alternative Investments	0%	10%

**Rate of Return** – For the year ended June 30, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 4.59 percent. 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. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 7 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2018 and 2017 were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 55,751	\$ 56,895
Plan fiduciary net pension	<u>62,367</u>	<u>65,924</u>
Plan's net pension asset	<u>\$ (6,616)</u>	<u>\$ (9,029)</u>
Plan fiduciary net position, as a percentage of the total pension liability	111.87%	115.87%

**Actuarial Assumptions** – The June 30, 2018 total pension liability was determined by an actuarial valuation as of February 28, 2018, which used updated procedures to roll forward the estimated liability to June 30, 2018. The June 30, 2017 total pension liability was determined by an actuarial valuation as of February 28, 2017, which used updated procedures to roll forward the estimated liability to June 30, 2017. The total pension liability is determined by the Plan's independent actuary and is that amount that results from applying actuarial assumptions to adjust the total pension liability to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Benassist Actuaries and Nyhart Actuary & Employee Benefits were the actuaries for the February 28, 2018 and February 28, 2017 valuations, respectively. The valuations used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50%

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.

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

The mortality table was based on the RP-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using the MP-2017 projection scale.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.0 percent and 7.5 percent for June 30, 2018 and June 30, 2017, respectively. The projection of cash flows used to determine the discount rate in both years assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

**Projected Cash Flows Section** – Based on those assumptions, the 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, 2018 and 2017 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	2018 Long-term Expected Real Rate of Return	2017 Long-term Expected Real Rate of Return
Fixed income	3.23%	2.54%
Domestic equity	7.89%	7.94%
International equity	8.73%	8.66%
Real estate	5.91%	5.88%



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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018, calculated using the discount rate of 7.0 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1–percentage–point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset) of the BWL (in thousands)	\$ (1,539)	\$ (6,616)	\$ (9,467)

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)

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 8 – Fair Value Measurements

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 8 – Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017:

*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.

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 8 – Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2018 and 2017:

Investment Type	June 30, 2018			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ -	\$ 1,890,701	\$ -	\$ 1,890,701
U.S. government obligations	-	7,966,488	-	7,966,488
Fixed income securities	-	12,372,866	-	12,372,866
Mutual funds	-	26,341,508	-	26,341,508
Common stocks	<u>13,634,806</u>	<u>-</u>	<u>-</u>	<u>13,634,806</u>
Total	<u>\$ 13,634,806</u>	<u>\$ 48,571,563</u>	<u>\$ -</u>	<u>\$ 62,206,369</u>

Investment Type	June 30, 2017			Total
	Level 1	Level 2	Level 3	
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	<u>19,938,242</u>	<u>-</u>	<u>-</u>	<u>19,938,242</u>
Total	<u>\$ 19,938,242</u>	<u>\$ 44,680,253</u>	<u>\$ 1,117,790</u>	<u>\$ 65,736,285</u>

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 9 – Risks and Uncertainties

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

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

## Note 10 – Subsequent Events

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

## Required Supplementary Information

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

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

	2018	2017	2016	2015	2014	2013	2012*	2011*	2010*	2009*
<b>Total Pension Liability</b>										
Service cost	\$ 50	\$ 113	\$ 223	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -	\$ -
Interest	4,031	4,317	4,625	4,919	4,751	5,085	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(230)	(383)	299	(1,093)	964	(1,716)	-	-	-	-
Changes in assumptions	1,419	(857)	(1,468)	-	4,538	-	-	-	-	-
Benefit payments, including refunds	(6,414)	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-
<b>Net Change in Total Pension Liability</b>	<b>(1,144)</b>	<b>(4,283)</b>	<b>(4,217)</b>	<b>(3,946)</b>	<b>2,061</b>	<b>(4,001)</b>	-	-	-	-
<b>Total Pension Liability - Beginning of year</b>	<b>56,895</b>	<b>61,178</b>	<b>65,395</b>	<b>69,341</b>	<b>67,280</b>	<b>71,281</b>	-	-	-	-
<b>Total Pension Liability - End of year</b>	<b>55,751</b>	<b>56,895</b>	<b>61,178</b>	<b>65,395</b>	<b>69,341</b>	<b>67,280</b>	-	-	-	-
<b>Plan Net Position</b>										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	3,112	8,272	47	1,771	14,243	10,170	-	-	-	-
Administrative expenses	(255)	(317)	(388)	(576)	(596)	(536)	-	-	-	-
Benefit payments, including refunds	(6,414)	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Net change in Net Position Held in Trust</b>	<b>(3,557)</b>	<b>482</b>	<b>(8,237)</b>	<b>(6,850)</b>	<b>5,106</b>	<b>1,857</b>	-	-	-	-
<b>Net Position Restricted for Pensions - Beginning of year</b>	<b>65,924</b>	<b>65,442</b>	<b>73,679</b>	<b>80,529</b>	<b>75,424</b>	<b>73,567</b>	-	-	-	-
<b>Net Position Restricted for Pensions - End of year</b>	<b>62,367</b>	<b>65,924</b>	<b>65,442</b>	<b>73,679</b>	<b>80,530</b>	<b>75,424</b>	-	-	-	-
<b>BWL Net Pension Asset - Ending</b>	<b>\$ (6,616)</b>	<b>\$ (9,029)</b>	<b>\$ (4,264)</b>	<b>\$ (8,284)</b>	<b>\$ (11,189)</b>	<b>\$ (8,144)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan Net Position as a % of Total Pension Liability</b>	111.87%	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ -	\$ -	\$ -	\$ -
<b>BWL's Net Pension Asset as a % of Covered Employee Payroll</b>	(1,097%)	(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.

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	86	2,109	-
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 603</b>	<b>\$ 586</b>	<b>\$ 772</b>	<b>\$ 1,018</b>	<b>\$ 1,225</b>	<b>\$ 1,684</b>	<b>\$ 2,101</b>	<b>\$ 2,398</b>	<b>\$ 2,660</b>	<b>\$ 3,089</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>3.59%</b>	<b>79.29%</b>	<b>- %</b>



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

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## Note to Required Supplementary Information (Unaudited) Year Ended June 30, 2018

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2018, based on roll-forward of February 28, 2018 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	7.0 percent per year compounded annually
Mortality	RP-2014 Mortality Table with MP-2017 Improvement Scale

Changes to assumptions: The mortality projection scale was updated to MP-2017 Projection Scale. The assumed form of payment for active participants was changed from life annuity to a 100% joint and survivor annuity. The discount rate and the expected long term rate of return on assets was decreased from 7.50% to 7.00%.

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

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

	2018	2017	2016	2015	2014	2013*	2012*	2011*	2010*	2009*
Annual money-weighted rate of return net of investment expense	4.59%	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 and Trust**

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**Financial Report  
with Required Supplementary Information  
As of and for the Years Ended June 30, 2018 and 2017**

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

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	Contents
<b>Independent Auditors' Report</b>	1-2
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis	3-4
<b>Financial Statements</b>	
Statement of Fiduciary Net Position	5
Statement of Changes in Fiduciary Net Position	6
Notes to Financial Statements	7-17

## 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 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 Employees' Defined Contribution Pension Plan and Trust ("Plan"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary position of the Plan as of June 30, 2018 and 2017, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
September 11, 2018

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

## Required Supplementary Information (Unaudited) Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the 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:

	2018	2017	2016
Assets held in trust:			
Mutual funds	\$ 145,098,563	\$ 136,451,476	\$ 124,001,268
Stable value	35,135,911	35,270,975	34,193,741
Guaranteed income fund	8,638,662	8,491,010	7,735,485
Participant notes receivable and other	5,794,428	5,726,432	5,300,821
Net position	<b><u>\$ 194,667,564</u></b>	<b><u>\$ 185,939,893</u></b>	<b><u>\$ 171,231,315</u></b>
Changes in plan assets:			
Net investment income/(loss)	\$ 17,630,692	\$ 19,491,557	\$ (1,505,961)
Employer and participant contributions	8,183,397	7,103,752	7,688,472
Benefits paid to participants	(16,928,587)	(11,877,805)	(7,946,117)
Loan defaults and other changes	(157,831)	(8,926)	(125,715)
Changes in net position	<b><u>\$ 8,727,671</u></b>	<b><u>\$ 14,708,578</u></b>	<b><u>\$ (1,889,321)</u></b>

### Investment Objectives

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

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

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## Management's Discussion and Analysis (Continued)

The Plan allows each participant to direct the investment of the funds in his or her plan accounts. The Lansing Board of Water and Light ("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, 2018 saw a net investment gain of \$17.6 million. Total assets held in trust at the end of the fiscal year were \$194.7 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 48901-3007.



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

## Statement of Fiduciary Net Position

	As of June 30	
	2018	2017
<b>Assets</b>		
Participant-directed investments (Note 1):		
Mutual funds	\$ 145,098,563	\$ 136,451,476
Stable value	35,135,911	35,270,975
Guaranteed income fund	8,638,662	8,491,010
Self-directed brokerage account	2,144,556	1,826,494
	<u>191,017,692</u>	<u>182,039,955</u>
Total participant-directed investments		
Participant notes receivable	<u>3,649,872</u>	<u>3,899,938</u>
<b>Net Position Restricted for Pensions</b>	<b><u>\$ 194,667,564</u></b>	<b><u>\$ 185,939,893</u></b>

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

## Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2018	2017
<b>Additions</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 8,851,973	\$ 15,347,096
Dividend income	8,778,719	4,144,461
Total investment income	17,630,692	19,491,557
Employer contributions (Note 1)	6,534,888	6,052,720
Participant rollover contributions	1,648,509	1,051,032
Interest from participant notes receivable	156,090	156,466
Total additions	25,970,179	26,751,775
<b>Deductions</b>		
Benefits paid to participants	16,928,587	11,877,805
Loan defaults	209,514	72,325
Participants' note and administrative fees	104,407	93,067
Total deductions	17,242,508	12,043,197
<b>Net Increase in Net Position</b>	8,727,671	14,708,578
<b>Net Position Restricted for Pensions</b>		
Beginning of year	185,939,893	171,231,315
End of year	<b>\$ 194,667,564</b>	<b>\$ 185,939,893</b>

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 - Description of the Plan

The following description of Lansing Board of Water and Light Employees' Defined Contribution Pension Plan ("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 recordkeeper, is responsible for plan administration and processing of participant investments.

**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.

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018, there were 918 participants in the Plan, of which 679 were active employees. As of June 30, 2017, there were 924 participants in the Plan, of which 661 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 or upon obtaining 55 years of age.

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

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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.

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 - Description of the Plan (Continued)

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

### Note 2 - Summary of Significant Accounting Policies

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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.

**Effect of New Accounting Standards on Current Period Financial Statements** – GASB has approved GASB Statement No. 84, Fiduciary Activities. When it becomes effective, application of this standard may restate portions of these financial statements.

### 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, 2018 and 2017, 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, 2018, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 145,098,563	Not rated	Not rated
Stable value	35,135,911	AA-	S&P

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

Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 3 – Investments (Continued)

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 136,451,476	Not rated	Not rated
Stable value	35,270,975	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, 2018, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual funds – Bond funds	\$18,870,972	4.8 years

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

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual funds – Bond funds	\$19,198,075	5.5 years



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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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; and
- > if the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017:

*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.

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017:

Investment Type	June 30, 2018			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Money market	\$ 303,087	\$ -	\$ -	\$ 303,087
Bond and equity funds	18,870,972	-	-	18,870,972
Stock funds	70,845,546	-	-	70,845,546
Balanced funds	30,528,873	-	-	30,528,873
Growth funds	6,933,676	-	-	6,933,676
International funds	17,616,409	-	-	17,616,409
Self-directed brokerage account	<u>2,144,556</u>	-	-	<u>2,144,556</u>
Total Investments by Fair Value Level	<u>\$ 147,243,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,243,119</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 35,135,911
Guaranteed Lifetime Income				<u>8,638,662</u>
Total Investments Measured at Fair Value				<u>\$ 191,017,692</u>

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 6 – Fair Value Measurements (Continued)

Investment Type	June 30, 2017			Total
	Level 1	Level 2	Level 3	
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	<u>1,826,494</u>	-	-	<u>1,826,494</u>
Total Investments by Fair Value Level	<u>\$ 138,277,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,277,970</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 35,270,975
Guaranteed Lifetime Income				<u>8,491,010</u>
Total Investments Measured at Fair Value				<u>\$ 182,039,955</u>

*Investments Measured Using NAV per Share Practical Expedient:* The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$35,135,911 and \$35,270,975 as of June 30, 2018 and 2017, respectively and the guaranteed lifetime income fund had a fair value of \$8,638,662 and \$8,491,010, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

### Note 7 – Risks and Uncertainties

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

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 8 – Subsequent Events

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

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

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**Financial Report  
with Required Supplementary Information  
As of and for the Years Ended June 30, 2018 and 2017**

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

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	Contents
<b>Independent Auditors' Report</b>	1-2
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis	3-4
<b>Financial Statements</b>	
Statement of Fiduciary Net Position	5
Statement of Changes in Fiduciary Net Position	6
Notes to Financial Statements	7-20
<b>Required Supplementary Information</b>	
Schedule of Changes in Net OPEB Liability and Related Ratios	21
Schedule of Employer Contributions	22
Schedule of Investment Returns	23
Notes to Required Supplementary Information	24

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the City Council,  
and Commissioners of the Board of Water and Light  
Post-Retirement Benefit Plan and Trust for Eligible  
Employees of Lansing Board of Water and Light  
City of Lansing, Michigan

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan"), a trust fund of Lansing Board of Water and Light, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary position of the Plan as of June 30, 2018 and 2017, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
September 11, 2018



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

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## Management’s Discussion and Analysis (Continued)

### Investment Objectives and Asset Allocation

The assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the 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	40%
Non-U.S. Equities	20%
Global Fixed Income	25%
Commercial Real Estate	15%

### Investment Results

The fiscal year ended June 30, 2018 saw a net investment income, net of administrative expenses, of \$10.4 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 actuarially determined contributions (ADC).

### 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.

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

## Statement of Fiduciary Net Position

	As of June 30	
	2018	2017
<b>Assets</b>		
Investments - fair value:		
Cash and money market trust funds	\$ 1,985,712	\$ 2,927,461
Fixed income securities	34,748,141	33,706,611
U.S. government obligations	26,527,961	29,051,025
Equities	48,418,160	54,440,986
Mutual funds	72,109,667	53,089,093
Total investments at fair value	183,789,641	173,215,176
Investment interest and dividend receivable	404,369	425,197
Trade receivable - due from broker	-	88,410
Total assets	184,194,010	173,728,783
<b>Liabilities</b>		
Trade payable - due to broker	154,385	93,727
<b>Net position restricted for retiree benefits</b>	<b>\$ 184,039,625</b>	<b>\$ 173,635,056</b>

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

## Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2018	2017
<b>Additions</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 6,742,518	\$ 13,724,335
Interest and dividend income	4,296,385	4,315,172
Total investment income	11,038,903	18,039,507
Employer contributions	10,395,327	9,573,671
Total additions	21,434,230	27,613,178
<b>Deductions</b>		
Retiree benefits paid	10,395,327	9,573,671
Administrative expenses	634,334	704,793
Total deductions	11,029,661	10,278,464
<b>Net Increase in Net Position</b>	10,404,569	17,334,714
<b>Net Position Restricted for Retiree Benefits</b>		
Beginning of year	173,635,056	156,300,342
End of year	<u>\$ 184,039,625</u>	<u>\$ 173,635,056</u>

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2018 and 2017

## Note 1 - Summary of Significant Accounting Policies

### **Reporting Entity**

The Board of Water and Light - City of Lansing, Michigan ("BWL") sponsors the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light ("Plan"), which is a single-employer defined benefit healthcare plan. The Plan was established on October 20, 1999, effective as of July 1, 1999, for the purpose of accumulating assets to fund retiree healthcare insurance costs in future years.

### **Accounting and Reporting Principles**

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

### **Basis of Accounting**

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

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

### **Report Presentation**

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

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Report Presentation (Continued)

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

**Effect of New Accounting Standards on Current Period Financial Statements** – GASB has approved GASB Statement No. 84, Fiduciary Activities. When it becomes effective, application of this standard may restate portions of these financial statements.

### 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 728 participants eligible to receive benefits at June 30, 2018 and 658 participants eligible at June 30, 2017.

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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 BWL Board of Commissioners is a Trustee during the term of office as a commissioner. The trustees have appointed Fifth Third Bank as custodian of the Plan's assets.

**Contributions** – Section 5–203 of the City Charter grants the authority to establish and amend the contribution requirement of the City and Plan members to BWL. The retiree benefits are paid by BWL's general cash flow to the third party administrators who process participant claims. These payments represent contributions to the Plan. Employer contributions in the statement of changes in trust net position are equal to the retiree benefits paid because the actuarially determined contribution (ADC) for the year ended June 30, 2018 was less than the pay-as-you-go amount. During the years ended June 30, 2018 and 2017, the cost to BWL of maintaining the Retiree Benefit Plan was \$10,395,327 and \$9,573,671 of which, respectively, was incurred as retiree benefit payments. The BWL may make additional contributions in such a manner and at such times as appropriate. All contributions received, together with the income thereon, are held, invested, reinvested, and administered by the trustees pursuant to the terms of the Plan agreement. Additional contributions are only made to the Plan if the ADC is more than the pay-as-you-go amount. No employee contributions are allowed under this Plan. Contributions are recognized when due and when the amount to be contributed is committed by the BWL. For the years ended June 30, 2018 and 2017, the contribution rates of the employers were 18.7 percent and 17.6 percent of covered-employee payroll, respectively.



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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018, there were 703 active participants (not eligible to receive benefits), 77 disabled participants, 506 retired participants, and 145 surviving spouses participating in the Plan. At June 30, 2017, there were 713 active participants (not eligible to receive benefits), 76 disabled participants, 453 retired participants, and 129 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 of 1965, as amended, allows the Plan to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government obligations	\$ 26,527,961	13.71 years
Fixed income securities	34,748,141	12.76 years
Money market trust funds	1,985,712	Less than 1 year
Portfolio weighted average maturity	-	13.17 years

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

#### 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, 2018, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations - implicitly guaranteed	\$ 10,714,313	AA+	S&P
U.S. government obligations - implicitly guaranteed	358,216	AA-	S&P
Fixed income securities	3,340,664	AAA	S&P
Fixed income securities	13,459,587	AA+	S&P
Fixed income securities	1,916,108	AA	S&P
Fixed income securities	429,721	AA-	S&P
Fixed income securities	768,211	A+	S&P
Fixed income securities	3,362,702	A	S&P
Fixed income securities	2,850,465	A-	S&P
Fixed income securities	4,246,060	BBB+	S&P
Fixed income securities	3,082,112	BBB	S&P
Fixed income securities	1,285,971	BBB-	S&P
Fixed income securities	6,540	B+	S&P
Money market trust funds	1,985,712	Not rated	Not rated

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 3 – Cash, Investments, and Fair Disclosure (Continued)

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 – implicitly guaranteed	\$ 11,961,284	AA+	S&P
U.S. government obligations – implicitly guaranteed	354,934	AA-	S&P
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 4 - Tax Status

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Equities	40%
Non-U.S. Equities	20%
Global Fixed Income	25%
Commercial Real Estate	15%

**Rate of Return** – For the years ended June 30, 2018 and 2017, the annual money-weighted rate of return on investments, net of investment expense, was 5.66% and 10.01%, 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 prior 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, 2018 and 2017 were as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total OPEB Liability	\$ 203,487,066	\$ 205,624,392
Plan fiduciary net position	<u>(184,039,625)</u>	<u>(173,635,056)</u>
BWL's net OPEB liability	<u>\$ 19,447,441</u>	<u>\$ 31,989,336</u>
Plan fiduciary net position as a percentage of the total OPEB Liability	90.44%	84.44%

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 6 – Net OPEB Liability of BWL (Continued)

**Actuarial assumptions** – The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, 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 2019 (2018 in prior year), decreasing 0.5% per year to an ultimate rate of 5.0% in 2027 (2026 in prior year) and later years

For the June 30, 2018 valuation, mortality rates were based on the RPH-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using an MP-2017 Projection Scale. For the June 30, 2017 valuation, 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 had completed an experience study in 2017. At that time, Nyhart recommended BWL to complete another experience study prior to the fiscal year ending June 30, 2022 valuation.

For the June 30, 2018 valuation, the long-term expected rate of return is 7.50%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are as follows:

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 6 – Net OPEB Liability of BWL (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.74%
Multi-sector	3.60%
Absolute return	3.82%
U.S. large cap equity	7.53%
U.S. small cap equity	8.79%
Non-U.S. equity	8.73%
Core real estate	5.91%

For the June 30, 2017 valuation, the long-term expected rate of return was 7.50%. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments was selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown. The final equivalent single discount rate used for the June 30, 2017 valuation was 7.50% with the expectation that BWL will continue contributing the Actuarially Determined Contribution and/or paying for the pay-go cost.

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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.

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 6 – Net OPEB Liability of BWL (Continued)

**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) as of June 30, 2018 and 2017:

	June 30, 2018		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$43,845,533	\$19,447,441	\$(991,597)
	June 30, 2017		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
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 as of June 30, 2018 and 2017:

	June 30, 2018		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(2,824,476)	\$19,447,441	\$46,517,181
	June 30, 2017		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$9,860,495	\$31,989,336	\$58,978,628



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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### 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, 2018 and 2017:

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 7 – Fair Value Measurements (Continued)

*Common Stock, Fixed income securities, and U.S. government obligations:* Valued at the most recent closing price reported on the market on which individual securities are traded.

*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, 2018 and 2017:

Investment Type	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ 3	\$ 1,985,709	\$ -	\$ 1,985,712
Fixed income securities	-	34,748,141	-	34,748,141
U.S. government obligations	-	26,527,961	-	26,527,961
Common Stock	48,418,160	-	-	48,418,160
Mutual funds	-	72,109,667	-	72,109,667
<b>Total</b>	<b>\$ 48,418,163</b>	<b>\$ 135,371,478</b>	<b>\$ -</b>	<b>\$ 183,789,641</b>

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

### Note 7 – Fair Value Measurements (Continued)

Investment Type	June 30, 2017			Total
	Level 1	Level 2	Level 3	
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
Common Stock	54,440,986	-	-	54,440,986
Mutual funds	-	53,089,093	-	53,089,093
Total	<u>\$ 54,440,990</u>	<u>\$ 118,774,186</u>	<u>\$ -</u>	<u>\$ 173,215,176</u>

### Note 8 – Risks and Uncertainties

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

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

### Note 9 – Subsequent Events

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

## Required Supplementary Information

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

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

	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*	2009*
<b>Total OPEB Liability</b>										
Service cost	\$ 4,827	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	15,039	14,226	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(9,880)	5,281	-	-	-	-	-	-	-	-
Changes in assumptions	(1,728)	(2,027)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(10,395)	(9,574)	-	-	-	-	-	-	-	-
<b>Net Change in Total OPEB Liability</b>	(2,137)	11,036	-	-	-	-	-	-	-	-
<b>Total OPEB Liability- Beginning of year</b>	<u>205,624</u>	<u>194,588</u>	-	-	-	-	-	-	-	-
<b>Total OPEB Liability- End of year</b>	203,487	205,624	-	-	-	-	-	-	-	-
<b>Trust Net Position</b>										
Contributions - Employer	10,395	9,574	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	11,039	18,040	-	-	-	-	-	-	-	-
Administrative expenses	(634)	(705)	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(10,395)	(9,574)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Net change in Net Position Held in Trust</b>	10,405	17,335	-	-	-	-	-	-	-	-
<b>Trust fiduciary net position Beginning of year</b>	<u>173,635</u>	<u>156,300</u>	-	-	-	-	-	-	-	-
<b>Trust fiduciary net position - End of year</b>	<u>184,040</u>	<u>173,635</u>	-	-	-	-	-	-	-	-
<b>BWL Net OPEB Liability- Ending</b>	<u>\$ 19,447</u>	<u>\$ 31,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Trust Fiduciary Net Position as a % of Total OPEB Liability</b>	90.44%	84.44%	- %	- %	- %	- %	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 55,650	\$ 54,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>BWL's Net OPEB Liability as a % of Covered Employee Payroll</b>	34.95%	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.

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

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

Fiscal Year Ended	Employer Contributions		Difference of Required to Actual Contributions	Covered Employee Payroll	Percentage of Actual Contributions to Covered Payroll
	Required	Actual			
6/30/2009*	\$ 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%
6/30/2018	7,535	10,395	2,860	55,650	19%

\*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.

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

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

	2018	2017	2016	2015'	2014'	2013'	2012'	2011'	2010'	2009'
Annual money-weighted rate of return net of investment expense	5.66%	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.

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

## Note to Required Supplementary Information (Unaudited) Years Ended June 30, 2018 and 2017

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2018, based on roll-forward of February 28, 2018 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	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-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using an MP-2017 Projection Scale

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2017, based on roll-forward of February 28, 2017 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	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 2018 Audited Financial Statements of the Enterprise Fund and Pension Fiduciary Funds**

RESOLVED, that the fiscal year 2018 Audited Financial Statements of the Board of Water and Light have been reviewed and are hereby accepted as presented.

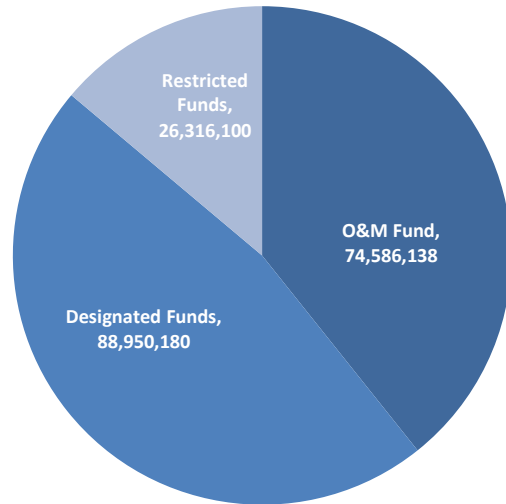
FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2018 Audited Financial Statements of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2018.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2018 Audited Financial Statements of the Board of Water and Light with the City of Lansing no later than October 15, 2018.

# Financial Summary - July 2018



## Cash



**Total Cash: \$189,852,418**

	Month End	Target
Days Cash on Hand	164	155
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.77	2.00

### Days Cash on Hand:

O&M Fund - Portion Restricted By Bond Covenants + Designated Funds  
 (Budgeted Operating Expenses - Depreciation + RoE to City) / 365

### Debt Service Coverage:

Projected Net Income + Depreciation Expense + Interest Expense  
 Debt Principal + Debt Interest

## Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 30,740,027	\$ 28,264,224	2,475,803	9%
Wholesale	\$ 2,941,405	\$ 3,298,384	(356,979)	-11%
<b>Total Revenue</b>	<b>\$ 33,681,433</b>	<b>\$ 31,562,609</b>	<b>2,118,824</b>	<b>7%</b>
Operating Expenses	\$ 23,866,151	\$ 25,080,879	(1,214,728)	-5%
Non Operating Income/(Expense)	\$ (2,175,799)	\$ (2,831,261)	655,462	-23%
<b>Net Income</b>	<b>\$ 7,639,482</b>	<b>\$ 3,650,468</b>	<b>3,989,014</b>	<b>109%</b>

**FY 2019 Budgeted Net Income \$ 20,101,039**

## Budget Status YTD

### O&M Budget YTD (excluding fuel)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,219,060	\$ 10,825,576	\$ 12,499,310	(1,673,734)	-13%
% of Approved Budget	7%	8%		

### Capital Budget YTD (Excluding New Power Plant)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 76,468,073	\$ 1,831,272	\$ 6,217,419	(4,386,147)	-71%
% of Approved Budget	2%	8%		

### Capital Budget YTD - New Power Plant Only

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 148,122,831	\$ 5,201,483	\$ 830,000	\$ 4,371,483	527%
% of Approved Budget	4%	1%		

## Return on Assets

Actual YTD	Budget YTD	Target
1.12%	0.53%	4.75%

Return on Assets =  $\frac{\text{YTD Net Income} + \text{YTD Interest Expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

# Financial Summary - July 2018



## Ratios

### Operating Ratio

O&M Expense	\$ 20,084,452	=	0.60	APPA Median 0.69
Revenue	\$ 33,681,433			

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

### Current Ratio

Current Assets	\$ 179,481,289	=	4.05	APPA Median 1.57
Current Liabilities	\$ 44,360,007			

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

### Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 394,624,910	=	0.41	APPA Median 0.58
Total Assets	\$ 972,762,273			

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

### Days Sales Outstanding

Accounts Receivable	\$ 27,146,096	x 31 =	26	Prior Year 26
Average Sales	\$ 32,774,079			

Measures the average number of days it takes to collect payment after a sale is made

### Bad Debt

12 Month Rolling Bad Debt	\$ 1,693,528	=	0.48%	Prior Year 0.45%
12 Month Rolling Revenue	\$ 355,858,423			

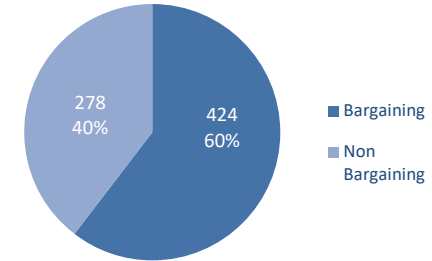
Measures the portion of each revenue dollar that will not be collected

## Employee Data

### Employee Count

Employee Count YTD	702
Budget YTD	754
Over/(Under) #	(52)

Full Time Equivalent	47
Temporary Employees	



### Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 4,474,940	\$ 4,702,901	\$ (227,961)	-4.8%	\$ 50.92
Overtime	\$ 560,288	\$ 492,925	\$ 67,363	13.7%	
Total	\$ 5,035,228	\$ 5,195,826	\$ (160,598)	-3.1%	

Total Hours Worked	94,872
Labor \$/Hours Worked	\$ 53.07

### Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 1,360,915	\$ 1,635,853	\$ (274,937)
RX	\$ 303,545	\$ 362,349	\$ (58,803)
Dental	\$ 103,250	\$ 121,051	\$ (17,801)
Life	\$ 30,066	\$ 30,120	\$ (54)
FICA	\$ 374,171	\$ 372,299	\$ 1,872
Other	\$ 27,519	\$ 12,131	\$ 15,388
Total	\$ 2,199,466	\$ 2,533,802	\$ (334,336)

## **PROPOSED RESOLUTION**

### **Capital Project Budget Exceedance Approval: AE – Electric Annual Account**

WHEREAS, Lansing Board of Water & Light's (BWL) Policy 15-02, entitled Capital Project Exceedance Approval necessitates BWL Board of Commission approval for aggregate total budget amounts for electric, water, steam and chilled water "annual" capital projects that are expected to exceed their previously approved budget by both 15% and \$200,000 prior to completion of the project; and

WHEREAS, the previously approved budget for Capital Project AE - Electric Annual Account was \$8,448,400; and

WHEREAS, the projected final total cost for Capital Project AE - Electric Annual Account is \$10,402,004, should the projects be completed; and

WHEREAS, BWL staff and management reviewed the project cost in detail, which includes but is not limited to the rationale and circumstances for the increased budget projection; and

WHEREAS, BWL staff and management recommends that the Capital Project AE – Electric Annual Account be completed despite the projected increased cost; and

WHEREAS, BWL staff and management recommends that the BWL Board of Commissioners approved the Capital Project AE – Electric Annual Account to be completed as projected.

RESOLVED, the BWL Board of Commissioners approve completion of Capital Project AE – Electric Annual Account with a projected final total cost of \$10,402,004.

# Proposed FY 2019 Audit Plan – Revised Sep 2018

Planned Audits:	Estimated Hours
Follow-up – IT Change Management (incl OT)	300
IT Cybersecurity	300
<b>COBIT Compliance Follow-up</b>	200
Asset Management Program	300
Metering Services	300
Accounts Payable	300
Vegetation Management	300
Procurement	300
Project Engineering – Planned Projects	300
<b>Other Engagements:</b>	
Consulting – BSMART & Other Org Change Mgt	200
Consulting – Other (TBD)	200
Surprise Cash Count (2)/Time Rpt Rev (2)	200
Total Required Hours	3,200