



FINANCE COMMITTEE MEETING

AGENDA

September 10, 2019

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 16, 2019 **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 2019 Audited Financial Statements
3. July YTD Financial Summary **INFO ONLY**
4. Internal Audit Report & Revised Internal Audit Work Plan **TAB 3**
5. Internal Audit Charter **TAB 4**
 - a. Resolution

Other

Adjourn

FINANCE COMMITTEE

Meeting Minutes

July 16, 2019

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 16, 2019.

Finance Committee Chair Ken Ross called the meeting to order at 5:07 p.m. and asked that roll be taken.

Present: Commissioners Ken Ross, Anthony Mullen, and David Price. Also present: Commissioners Joseph Graves Jr. (arrived at 5:26 p.m.), Tracy Thomas, Sandra Zerkle, and Non-Voting Commissioners Michael Froh (Meridian Township), Douglas Jester (East Lansing) (arrived at 5:12 p.m.) and Larry Merrill (Delta Township).

Absent: Commissioner Beth Graham.

The Corporate Secretary declared a quorum.

Public Comments

None

Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Mullen, to approve the Finance Committee meeting minutes of May 14, 2019.

Action: Motion Carried.

Chair Ross welcomed new Internal Auditor Wesley Lewis.

May YTD Financial Summary & Overview of Committee Reporting Framework

Chief Financial Officer (CFO) Heather Shawa introduced Mr. Scott Taylor, Finance Manager, who provided an overview of the financial summary dashboard. Mr. Taylor reviewed the main topics and stated that this report is issued monthly and it is to keep the board informed throughout the year of key financial results. The dashboard consists of a Cash section, critical rating metrics of days cash on hand and debt service coverage, a budget to actual comparison section, and a return on assets section.

Commissioner Ross asked which of the above items was the main interest of rating agencies. Mr. Taylor responded that days cash on hand, credit rating and debt service coverage are the most important metrics for the rating agencies.

Commissioner Froh inquired about the wholesale numbers and Mr. Taylor responded that a capital project that was delayed and unplanned outages affected the wholesale numbers as native load is served first and wholesale second.

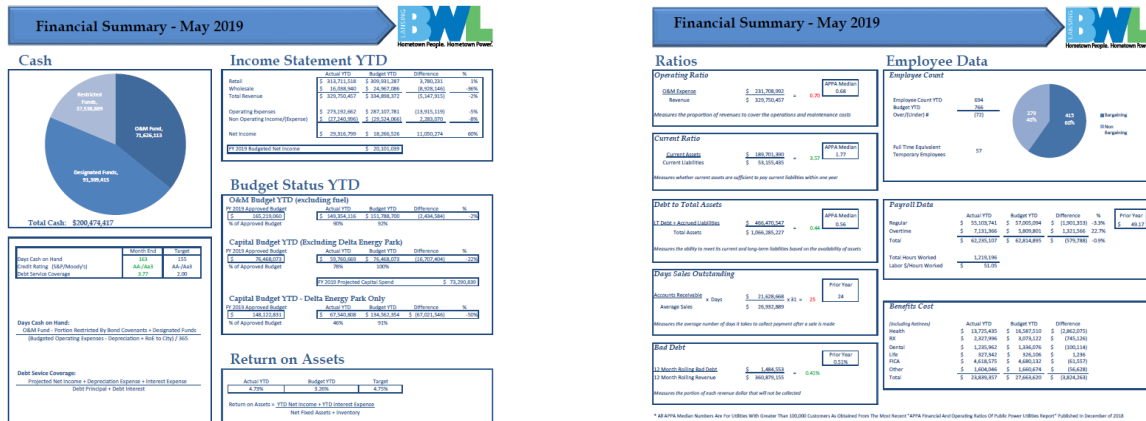
Commissioner Ross asked for the main components of retail and wholesale. Mr. Taylor responded that retail sales are for residential, commercial and industrial customers and after

they are provided with service any additional generation, when market prices are favorable, is sold on the wholesale market.

Mr. Taylor stated that the dashboard also consists of key ratios that are comparisons with industry peer groups of APPA and employee data which determines operations costs and changes.

Ms. Shawa pointed out that APPA ratios are for electric utilities and water benchmarks follows the AWWA.

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



Cash targets are well above income. June preliminary fiscal year end is \$30-33 million which is well above the budgeted net income of \$20 million. Ms. Shawa noted that VEBA is 100% funded and this will be addressed in the trustee meeting. Revenue tracking is comparable to last year, operating expenses are under budget, and \$3 million is projected for fiscal year end and O & M will be back to YTD budget. Return on Assets will be achieved this fiscal year. Three out of five ratios are tracking above benchmarks. For Employee Data there are vacancies for which HR is recruiting.

Commissioner Mullen asked about the number of days for days cash on hand and Ms. Shawa responded that the target requirement is set at 155 to maintain infrastructure and rating agencies prefer 160 to 165.

Commissioner Price inquired about the employee count YTD. Ms. Shawa responded that there are 34 vacancies which is in the range of the 30-35 consistent average. GM Peffley added that HR is working to fill the vacancies.

Additional questions and conversations were brought by the Commissioners and Ms. Shawa and Mr. Taylor gave responses and explanations.

Internal Audit Open Management Response Quarterly Report

Mr. Scott Taylor presented management’s responses to audits as follows:

STATUS OF MANAGEMENT RESPONSES TO AUDITS
JULY 2019

In Accordance with Board Resolution #2014-07-05

Issue #	Audit Issue	Audit Issue Description	Response Date	Responsible Area	Status of Management Response
59	Succession Planning	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A tool for identifying critical positions has been developed and tested. Management will be trained on the use of the tool and all critical positions will be identified by 4/30/20.
67	Contract Signature Authority Compliance	Internal Audit noted the need for alignment with the updated organizational structure and Procurement Procedures, inclusion of MOAs, and consistently obtaining the Corporate Secretary's signature.	October 2018	Legal Services	Management has drafted the necessary revisions needed to create alignment with the new organizational structure, procurement procedures, and MOAs, and also includes requirements for the Corporate Secretary's signature. The revisions will be reviewed, approved, and delivered to the full management team by 8/31/19.
68	Contract Signature Authority Compliance	Internal Audit noted that proper approval and supporting documentation need to be on file.	October 2018	Legal Services	Policy development to address approval and documentation requirements is underway. Management will complete development, finalize the policy, and deliver to the full management team by 8/31/19.
69	COBIT Compliance Follow-Up	Internal Audit noted that actions should continue on as expeditious a schedule as possible to reach full compliance with the adopted IT governance framework.	February 2019	Information Technology	Of 55 items, 36 are complete and 19 are in process, with remaining completion dates ranging from 6/30/19 to 12/16/19.
72	Vegetation Management	Internal Audit recommends that Electric System Operations and Forestry meet with project management experts in the organization to assist in enhancing the process.	May 2019	Electric System Operations Forestry	Management will meet with project management experts within the BWL to identify opportunities to enhance the current process. The review will begin in July 2019 as the new cycle begins and will be completed by July 31, 2020 after the first year of the new cycle concludes.
73	Manning Services	Internal Audit recommends that a centralized electronic version of records be generated, in addition to hard copy or local versions.	May 2019	Work & Staff Distribution	Calibration and maintenance records for large electric, crane and child restraint notes will be backed up electronically and in a centralized manner by December 31, 2019.
74	Manning Services	Internal Audit recommends that risk management practices be enhanced.	May 2019	AS&P Project	Third-party governance and risk management methodologies will be reviewed to assess relevant risk mitigations. Implementations of adopted methodologies will be completed by August 31, 2019.
75	Accounts Payable	Internal Audit recommends temporary holding or clearing accounts are reconciled and monitored on a periodic basis.	June 2019	General Accounting	Management will reconcile the GR-TR account used for accounts payable transactions by July 31, 2019, and monthly thereafter.

Issue #	Audit Name	Audit Issue Description	Response Date	Responsible Area	Status of Management Response
76	Accounts Payable	Internal Audit recommends accounts payable procedures which require monitoring and/or reconciliation activities be reviewed periodically.	June 2019	General Accounting	Management will review and update all relevant accounts payable procedures by September 30, 2019, and annually thereafter.
Closed Issues (since December 2018 report)					
152	COBIT	Internal Audit noted that actions should continue on as expeditious a schedule as possible to reach full compliance with the adopted IT governance framework.	February 2019	Information Technology	As a result of the COBIT Follow-Up audit, this item is been closed and has been replaced with open item #69.
60	Succession Planning	Internal Audit supports training and development of succession candidates.	March 2018	Human Resources	Condition assessment and development were addressed as part of the BWL Leadership Academy Emerging Leaders Program conducted April 2018 to April 2019.
65	Physical Security	Internal Audit supports a periodic review of all facility access.	Sept 2018	Industrial Health & Safety	Security has completed its first annual update of facility access per feedback from managers.
66	Physical Security	Internal Audit recommends controls over security personnel permitted to carry firearms on a concealed basis be enhanced.	Sept 2018	Industrial Health & Safety	Controls over security personnel authorized to carry firearms on a concealed basis have been enhanced.

Mr. Taylor reported that the first three items were carried over from the report of the prior period and are on track to be completed. New audits have been initiated with completion dates as noted.

Other

Motion by Commissioner Price, Seconded by Commissioner Mullen, to excuse Commissioner Graham from tonight's meeting.

Action: Motion Carried

Adjourn

Motion by Commissioner Price to adjourn the meeting. Commissioner Ross adjourned the meeting at 5:43 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee



Board of Water and Light – City of Lansing

Finance Committee Meeting - 2019 Audit Presentation

September 10, 2019



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Board of Water and Light – City of Lansing



Agenda

Audit overview

Observations and
Recommendations

Required Communication to
Governing Body

Board of Water and Light – City of Lansing Audit Overview



Audit performed in accordance with *Generally Accepted Auditing Standards*



Audit objective – reasonable assurance that financial statements are free from material misstatement



Financial statements of BWL received an *Unmodified Opinion*

Board of Water and Light – City of Lansing
Audit Overview

Financial
Statements
Include

Auditors' report

Management discussion and analysis

Enterprise fund statements

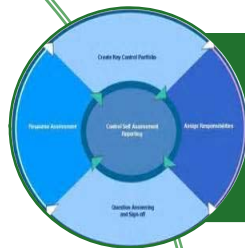
Consolidated pension trust statements

Notes

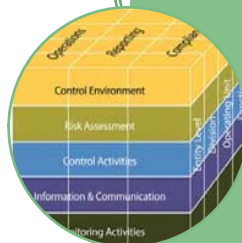
Required supplemental information

Additional information

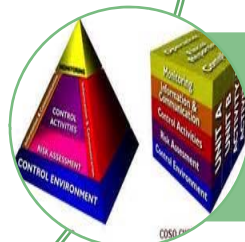
Board of Water and Light – City of Lansing Audit Overview



Audit assesses internal controls



“...a means by which an organization’s resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization’s resources”



Controls must meet the goal and objectives of Operations, Reporting and Compliance

Board of Water and Light – City of Lansing
Audit Overview

Controls
reviewed in
key
transaction
areas

Disbursements

Payroll

Billings

Cash and investments

Capital assets

Information technology

Financial reporting

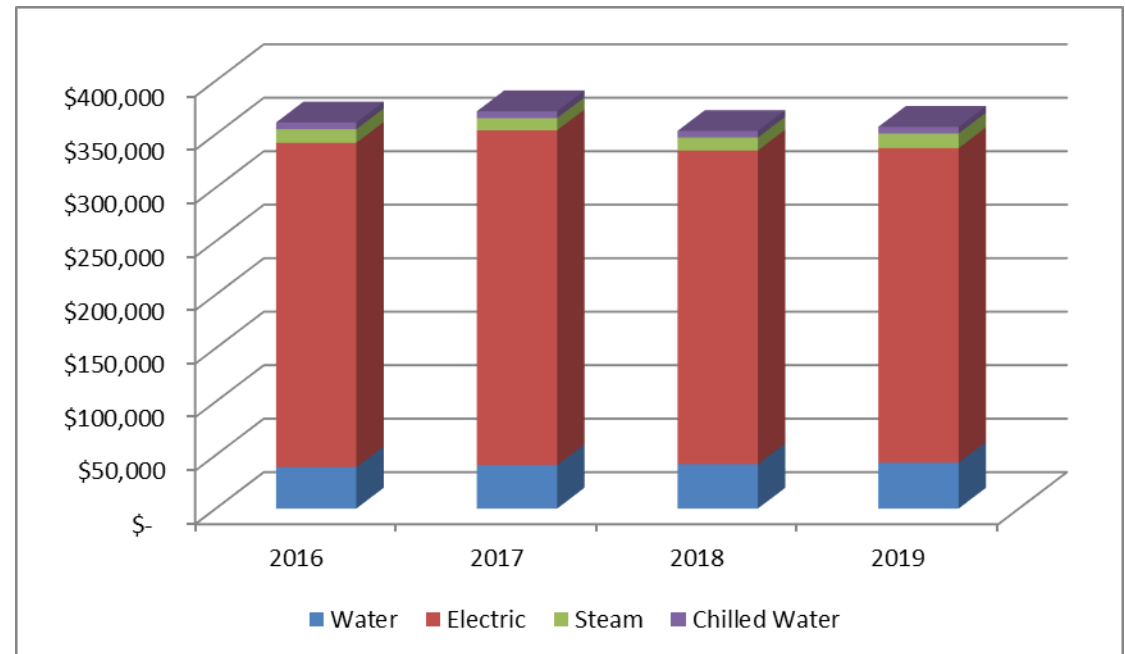


Board of Water and Light – City of Lansing
Observations and recommendations
Enterprise Fund

- Reported net income of \$32,400,000
- Bond coverage was met in 2019
- There were no material weaknesses reported
- Implemented GASB 89

Board of Water and Light – City of Lansing
Observations and recommendations
Enterprise Fund

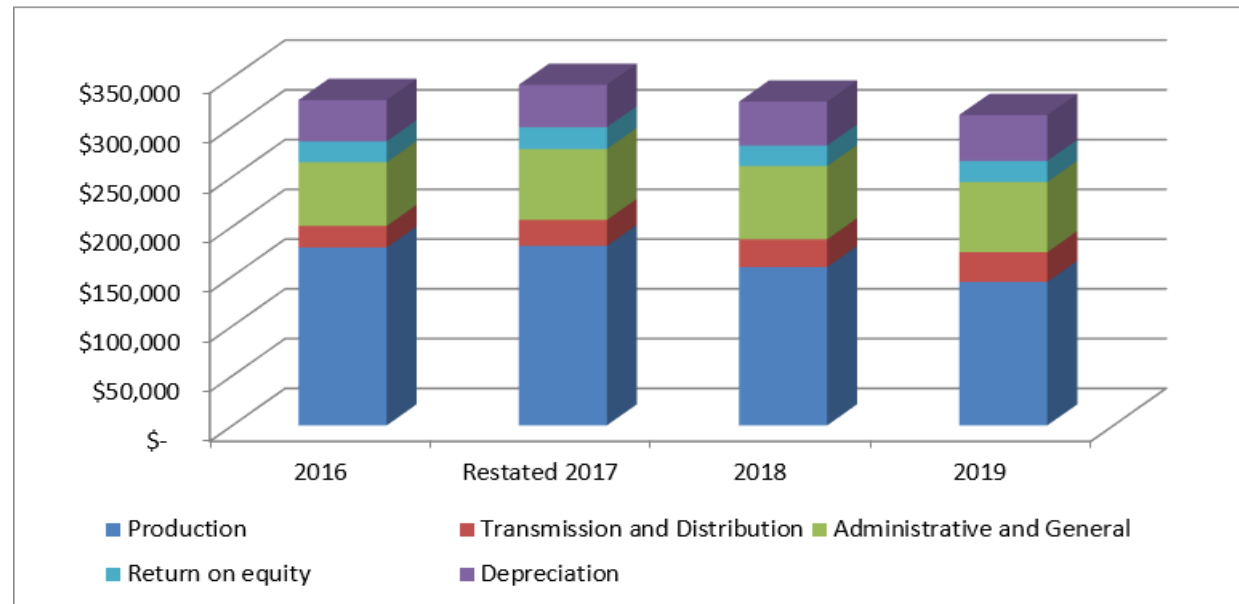
Operating
Revenues –
Four-year
Comparison
(in thousands)



	2016	2017	2018	2019
Water	\$ 38,731	\$ 40,738	\$ 41,524	\$ 42,851
Electric	303,246	312,925	293,261	294,101
Steam	12,683	11,404	12,072	13,740
Chilled Water	6,276	6,363	6,225	6,192
Operating Revenue	\$ 360,936	\$ 371,430	\$ 353,082	\$ 356,884

Board of Water and Light – City of Lansing
Observations and recommendations
Enterprise Fund

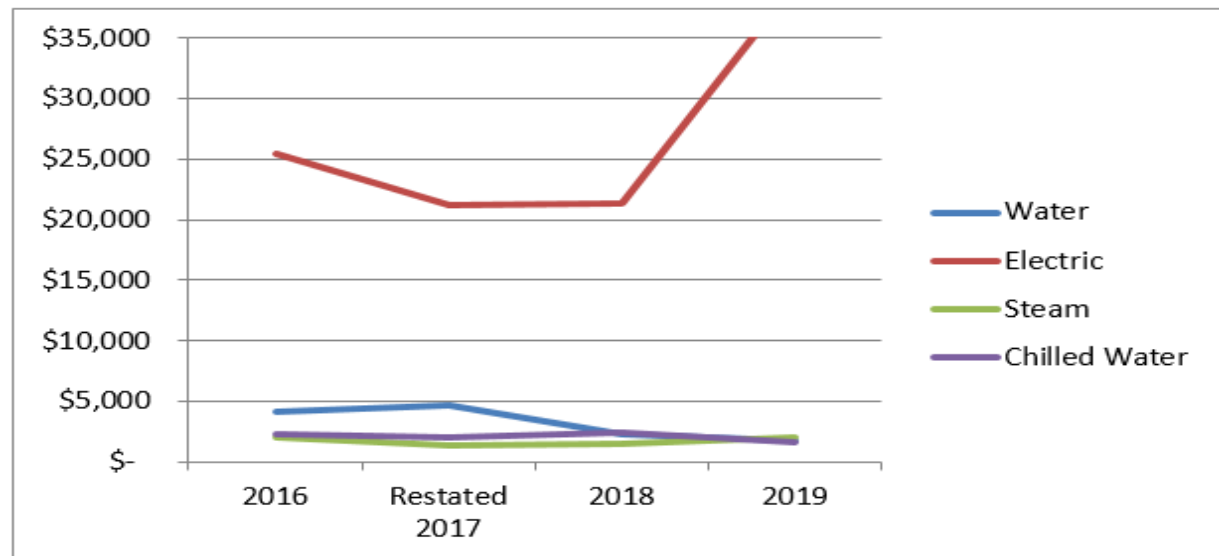
Operating Expenses –
Four-year
Comparison
(in thousands)



	2016	Restated 2017	2018	2019
Production	\$ 178,958	\$ 180,513	\$ 159,154	\$ 144,277
Transmission and Distribution	21,593	25,980	27,913	29,875
Administrative and General	64,007	71,418	73,639	70,664
Return on equity	21,034	21,862	20,562	21,111
Depreciation	41,542	42,598	44,255	46,124
Operating Expenses	\$ 327,134	\$ 342,371	\$ 325,523	\$ 312,051

Board of Water and Light – City of Lansing
Observations and recommendations
Enterprise Fund

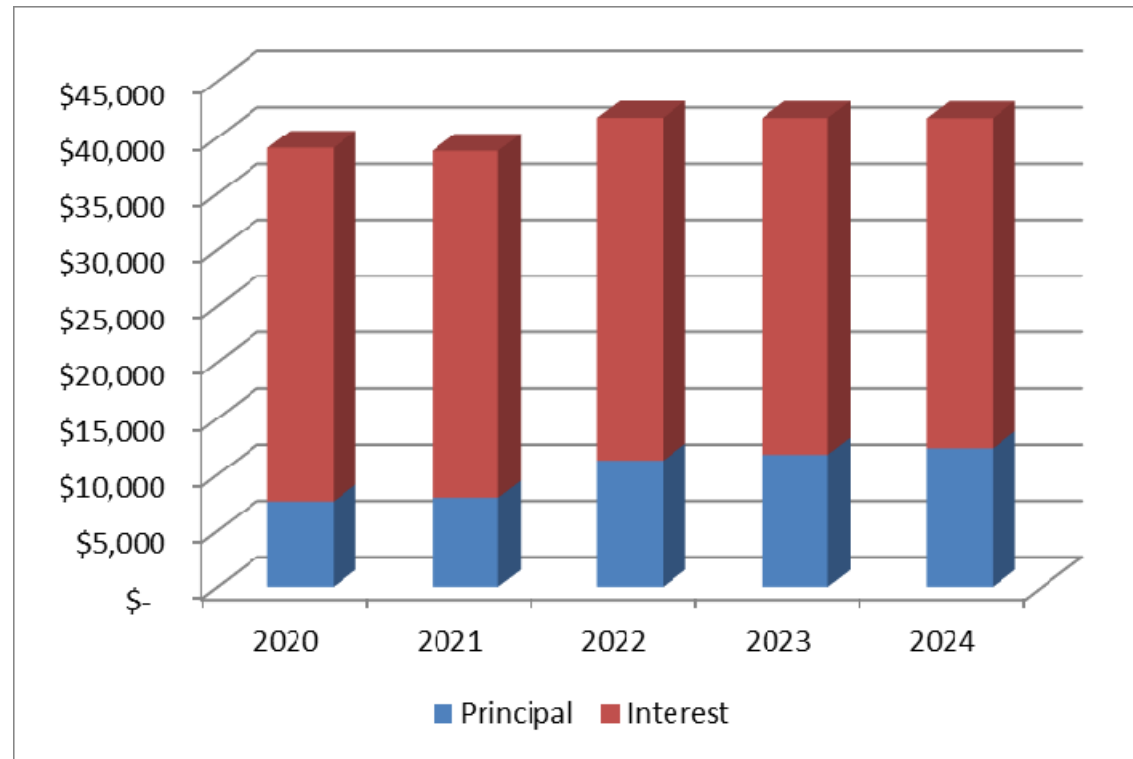
Operating
Income –
Four-year
Comparison
(in thousands)



	2016	Restated 2017	2018	2019
Water	\$ 4,099	\$ 4,608	\$ 2,321	\$ 1,728
Electric	25,385	21,159	21,295	39,471
Steam	2,047	1,286	1,479	1,981
Chilled Water	2,271	2,005	2,465	1,654
Operating Income	\$ 33,802	\$ 29,058	\$ 27,560	\$ 44,834

Board of Water and Light – City of Lansing
Observations and recommendations
Enterprise Fund

Future Debt
Service
Requirements
(in thousands)



	2020	2021	2022	2023	2024
Principal	\$ 7,609	\$ 7,942	\$ 11,242	\$ 11,774	\$ 12,330
Interest	31,443	30,845	30,489	29,938	29,360

Debt service after 2024 includes remaining principal payments of \$574,401,000 and interest payments of \$434,613,000 through 2048.



Board of Water and Light – City of Lansing
Observations and recommendations
Pension Plans

- Separate financial statements issued for each pension plan
- All three plans received unmodified audit opinions

Board of Water and Light – City of Lansing
Observations and recommendations

Future accounting standards

- GASB Statement No. 84, Fiduciary Activities effective for fiscal year 2020
- GASB Statement No. 87, Leases – effective for fiscal year 2021
- GASB Statement No. 91, Conduit Debt Obligations – effective for fiscal year 2022

Board of Water and Light – City of Lansing
Auditor communication to those charged with governance

Area to be Communicated	Area to be Communicated
Our responsibility under Auditing Standards Generally Accepted in the United States	Other Information in Documents Containing Audited Financial Statements
Planned Scope and Timing of the Audit	Accounting Policies
Accounting Estimates	Financial Statement Disclosures
Difficulties Encountered in Performing the Audit	Corrected and Uncorrected Misstatements
Disagreements with Management	Consultations with Other Independent Accountants
Management Representations	Auditor Independence

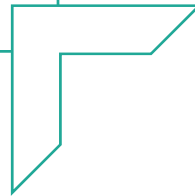


Board of Water and Light – City of Lansing

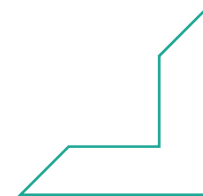
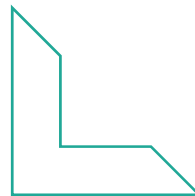
We appreciate the help of the Board of Water and Light General Accounting & Finance Teams in preparing for and assisting in the audit!



Board of Water and Light – City of Lansing



Discussion





Audit summary

Jodi Dobson, Partner

D: 608 240 2469

Jodi.Dobson@bakertilly.com

Bethany Ryers, Firm Director

D: 608 240 2382

Bethany.Ryers@bakertilly.com

Jeff Hurda, Senior Accountant

D: 608 240 6794

Jeff.Hurda@bakertilly.com

**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, 2019

BOARD OF WATER AND LIGHT – CITY OF LANSING, MICHIGAN

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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, 2019, 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.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 5, 2019

OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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

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

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.
- d. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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

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

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

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

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

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of May or June. Our final financial fieldwork is scheduled during the summer to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 3-4 weeks after final fieldwork, but may vary depending on a number of factors.

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

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

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

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

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

We have completed our audit of the financial statements of the Board of Water and Light – City of Lansing, Michigan and Pension Trust Funds (collectively referred to as the BWL) for the year ended June 30, 2019, and have issued our report thereon dated September 5, 2019. 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 11, 2018.

SIGNIFICANT AUDIT ISSUES

Qualitative Aspect of 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. 89, *Accounting for Interest Cost Incurred before the End of the Construction Period* in 2019. 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 workers' compensation liability is based on historical claims and an estimated lag provided by CompOne. 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.

SIGNIFICANT AUDIT ISSUES (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, 2019, 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.

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

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

OTHER AUDIT 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 5, 2019

MANAGEMENT REPRESENTATIONS



September 5, 2019

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

Dear Baker Tilly Virchow Krause, LLP:

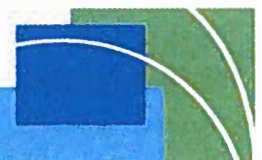
We are providing this letter in connection with your audit of the financial statements of the Lansing Board of Water and Light; including the Lansing Board of Water and Light Defined Benefit Plan, the Lansing Board of Water and Light Defined Contribution Plan, and the Lansing Board of Water and Light Retiree Benefit Plan (collectively the Lansing Board of Water and Light), as of June 30, 2019 and 2018 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the business type activities, and the fiduciary funds of the Lansing Board of Water and Light and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

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

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

Financial Statements

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

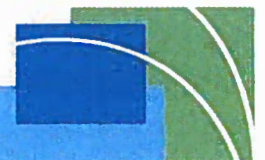




6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting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

Information Provided

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

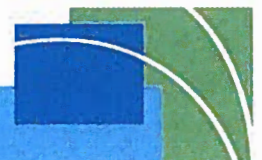




14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations,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

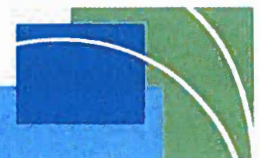
Other

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





- e. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or leases in default, or events that may jeopardize the tax status) that legal counsel has advised us must be disclosed.
23. With regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
- a. Financial statement preparation assistance.
- None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
24. The Lansing Board of Water and Light has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
25. The Lansing Board of Water and Light has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.
26. The financial statements properly classify all funds and activities. All cash and bank accounts and all other properties and assets of the entity of which we are aware are included in the financial statements. All borrowings and financial obligations of the entity of which we are aware are included in the financial statements as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.
27. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
28. The Lansing Board of Water and Light has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
29. Provisions for uncollectible receivables, if any, have been properly identified and recorded. Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet dates and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.
30. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
31. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
32. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.





33. We believe that the estimate made for the pollution remediation liability is in accordance with GASB 49 and reflects all known available facts at the time it was recorded.
34. Tax exempt bonds issued have retained their tax-exempt status.
35. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.
36. We have appropriately disclosed the Lansing Board of Water and Light's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position was properly recognized under the policy.
37. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
38. With respect to the supplementary information, (SI):
 - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
39. We assume responsibility for, and agree with, the findings of specialists in evaluating the self-insurance reserves, net OPEB liability and related deferrals, and net pension asset and related deferrals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
40. We have implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of the Construction Period* and believe that all required disclosures and accounting considerations have been identified and properly classified in the financial statements in compliance with the Standard.

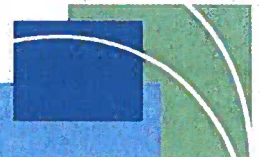
The following representations relate specifically to the employee benefit plans:

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





42. The defined benefit plan obtained its latest determination letter on November 4, 2011, in which the Internal Revenue Service stated that the plan, as then designed, was in compliance with the appropriate requirements of the Internal Revenue Code (IRC). We believe the plan is currently designed and being operated in compliance with the applicable requirements of the IRC.
43. The defined contribution plan obtained an opinion letter on March 31, 2014, in which the Internal Revenue Service stated that the plan, as then designed, was acceptable as to form under Section 401 of the IRC and employers adopting the plan may rely on the opinion letter with respect to qualification of its plan under Code section 401(a). We believe the plan is currently designed and being operated in compliance with the applicable requirements of the IRC.
44. The retiree benefit plan received a letter from the Internal Revenue Service dated February 8, 2000 confirming its status as exempt from tax under the IRC. We believe the exemption letter remains valid.
45. We have no intentions to terminate any of the plans.
46. Related to the defined benefit plan:
 - a. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.
 - b. The plan administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the plan's net pension asset and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.
47. Related to the retiree medical plan:
 - a. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the annual employer contribution and other actuarially determined amounts in the financial statements.
 - b. The plan administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the plan's actuarial accrued liability and total OPEB liability (under GASB Statement No. 74) and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.
48. The following have been properly recorded or disclosed in the financial statements:
 - a. The actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.
 - b. No other changes occurred in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.





- 49. The plans (and the trusts established under the plans) are qualified under the appropriate section of the Internal Revenue Code and intend to continue as qualified plans (and trusts). The plan sponsor has operated the plans and trusts in a manner that did not jeopardize this tax status.
- 50. All required filings with the appropriate agencies have been made.

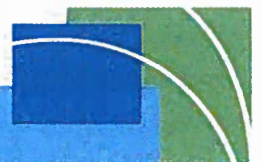
Sincerely,

Lansing Board of Water and Light

Signed: Heather Shawa
Heather Shawa, CFO

Signed: Lori Pung
Lori Pung, General Accounting Manager

Signed: Scott Taylor
Scott Taylor, Finance Manager





Board of Water and Light – City of Lansing, Michigan

Financial Report
with Additional Information
As of and for the Years Ended June 30, 2019
and 2018

Board of Water and Light – City of Lansing, Michigan

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Board of Water and Light – City of Lansing, Michigan

Pension Trust Funds – Detail of Statement of Changes in Net
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INDEPENDENT AUDITORS' REPORT

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

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, 2019 and 2018, 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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Additional Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information, listed in the table of contents as additional information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 5, 2019

Lansing Board of Water and Light

Management's Discussion and Analysis

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light ("BWL"). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for the years ended June 30, 2019 and 2018.

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 54 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 57,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving over 140 customers, and a chilled water facility and distribution piping system serving 19 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a high level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt service back into capital improvements for its water, electric, steam, and chilled water systems. Gross capital expenditures were \$131.4 and \$92.3 million in fiscal years 2019 and 2018, respectively.

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

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

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

Condensed Financial Information (dollars in millions)

	As of June 30			% Change	
	2019	2018	Restated 2017	2018 to 2019	
Assets					
Utility plant	\$ 798.7	\$ 719.3	\$ 680.4	%	11.0
Other assets	661.8	296.8	332.8		123.0
Total assets	1,460.5	1,016.1	1,013.2		43.7
Deferred Outflow of Resources	5.2	7.4	6.6		(29.7)
Liabilities					
Long-term liabilities	712.6	355.6	380.0		100.4
Other liabilities	63.3	61.3	56.6		3.3
Total liabilities	775.9	416.9	436.6		86.1
Deferred Inflow of Resources	86.9	36.2	26.9		140.1
Net Position					
Net investment in capital assets	381.0	418.1	369.5		(8.9)
Restricted for debt service	72.1	42.8	38.7		68.5
Unrestricted	149.8	109.6	148.2		36.7
Net position	\$ 602.9	\$ 570.5	\$ 556.4	%	5.7

Capital expenditures in FY2019 exceeded depreciation, impairments and retirements thereby increasing utility plant by \$79.4 million. The \$365 million increase in other assets is offset by a \$356 million increase in long term liabilities due to capital funding for new production facilities.

Fiscal year 2017 balances were restated during FY 2018 due to the implementation of GASB No. 75. 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.

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions) (Continued)

	For the Year Ended June 30			% Change	
	2019	2018	Restated 2017	2019 to 2018	
Result of Operations					
Operating Revenue	\$ 356.9	\$ 353.1	\$ 371.4	%	1.1
Operating Expense	312.1	325.5	342.4		(4.1)
Nonoperating expense - Net	(12.4)	(13.4)	(22.7)		(7.5)
Changes in Net Position	\$ 32.4	\$ 14.1	\$ 6.4	%	129.8

Operating revenue increased by \$3.8 million primarily due to changes in rates. Net Income increased by \$18.3 million primarily due to reduced operating expenses which included a reduction in postemployment benefit expense of \$11.5 million.

Budget – The BWL Commissioners approved a \$266.2 million operating expense budget (excluding depreciation) for fiscal year 2019. Actual expenses (excluding depreciation and impairment) were \$244.5 million. The capital improvement budget, net of customer contributions in aid of construction, was \$189.6 million for FY2019, and actual net capital expenditures were \$129.0 million. The difference between the capital budget and actual spend is due to a change within the project timeline for a new combined cycle natural gas power plant, Delta Energy Park.

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. In June of 2019, \$319,875,000 of Utility System Revenue Bonds, Series 2019A were issued for the purposes of paying costs to acquire and construct a natural gas combined cycle facility (Delta Energy Park) and other system improvements, paying a portion of the BWL's outstanding 2018 Note Series, providing for the payment of capitalized interest on the Series 2019 Bonds, and paying costs of issuance of the Series 2019 Bonds. The cost of Delta Energy Park is budgeted at up to \$500 million and is scheduled to begin operation in FY 2021.

Board of Water and Light - City of Lansing, Michigan

Statements of Net Position

	As of June 30	
	2019	2018
Assets		
Current Assets		
Restricted cash and investments (Notes 2 and 3)	\$ 79,607,052	\$ 50,550,600
Cash and investments (Notes 1 and 2)	37,546,971	48,127,904
Designated cash and investments (Notes 1 and 2)	91,631,559	88,774,893
Accounts receivable - Net (Note 1)	24,087,240	24,560,286
Estimated unbilled accounts receivable (Note 1)	18,131,906	19,748,294
Inventories (Note 1)	29,966,809	23,921,728
Other	5,278,743	4,742,077
Total current assets	286,250,280	260,425,782
Other Assets		
Recoverable environmental remediation (Note 6)	2,435,729	2,983,786
Special deposit (Note 1)	34,361,165	41,165
Net pension asset (Note 8)	6,595,727	6,616,482
Net OPEB asset (Note 8)	46,608,898	-
Other (Note 1)	2,590,845	2,593,739
Total other assets	92,592,364	12,235,172
Noncurrent Restricted Assets (Investments) (Notes 2 and 3)	282,919,314	24,151,912
Utility Plant (Notes 1 and 4)		
Water	328,004,577	316,440,019
Electric	795,361,687	730,148,451
Steam	80,233,333	78,115,677
Chilled water	34,083,868	34,078,066
Common facilities	103,276,137	92,072,756
Total	1,340,959,602	1,250,854,969
Less accumulated depreciation	611,749,762	570,038,862
Net	729,209,840	680,816,107
Construction in progress (Note 9)	69,536,946	38,518,401
Total utility plant	798,746,786	719,334,508
Total assets	1,460,508,744	1,016,147,374
Deferred Outflows of Resources -		
Bond refunding loss being amortized	1,699,549	1,859,964
Net pension deferred outflows (Note 8)	337,272	1,932,329
Net OPEB deferred outflows (Note 8)	3,180,635	3,655,764
Total deferred outflows of resources	5,217,456	7,448,057

Board of Water and Light - City of Lansing, Michigan

Statements of Net Position (Continued)

	As of June 30	
	2019	2018
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 38,323,009	\$ 34,829,022
Current portion of long-term debt (Note 5)	7,608,792	9,360,459
Accrued payroll and related taxes	2,415,744	2,311,346
Customer deposits	2,474,310	2,202,779
Accrued compensated absences (Note 1)	4,843,676	4,810,006
Accrued interest	84,772	89,998
Accrued interest (payable from restricted assets)	<u>7,531,375</u>	<u>7,729,600</u>
Total current liabilities	63,281,678	61,333,210
Compensated Absences - Less current portion (Note 1)	7,497,367	7,313,587
Other Long-term Liabilities		
Workers' compensation	2,200,000	2,200,000
Environmental remediation liability (Note 9)	6,902,174	7,321,928
Net OPEB liability (Note 8)	-	19,447,441
Other	<u>1,305,804</u>	<u>1,375,055</u>
Total other long-term liabilities	10,407,978	30,344,424
Long-term Debt - Less current portion (Note 5)	<u>694,699,953</u>	<u>317,880,899</u>
Total liabilities	775,886,976	416,872,120
Deferred Inflows of Resources		
Revenue intended to cover future costs (Note 6)	15,377,770	17,921,615
Recoverable energy asset (Note 6)	8,087,614	4,908,441
Net OPEB deferred inflows (Note 8)	<u>63,472,837</u>	<u>13,395,378</u>
Total deferred inflows of resources	86,938,221	36,225,434
Net Position		
Net investment in capital assets	381,056,904	418,105,026
Restricted for debt service (Note 3)	72,075,677	42,821,000
Unrestricted	<u>149,768,422</u>	<u>109,571,851</u>
Total net position	<u>\$ 602,901,003</u>	<u>\$ 570,497,877</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	
	2019	2018
Operating Revenues (Note 1)		
Water	\$ 42,851,399	\$ 41,524,143
Electric	294,100,606	293,261,408
Steam	13,740,119	12,072,017
Chilled water	6,192,397	6,225,356
Total operating revenues	356,884,521	353,082,924
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	125,335,173	142,679,119
Maintenance	18,941,418	16,474,970
Transmission and distribution:		
Operating expenses	8,186,690	7,929,917
Maintenance	21,688,566	19,983,487
Administrative and general	70,664,307	73,638,904
Return on equity (Note 7)	21,110,884	20,561,871
Depreciation (Note 1)	46,123,865	44,255,255
Total operating expenses	312,050,903	325,523,523
Operating Income	44,833,618	27,559,401
Nonoperating Income (Expenses)		
Investment income	5,464,438	834,087
Other (expense)	(2,373,022)	(883,318)
Bonded debt interest expense	(15,443,098)	(13,331,897)
Other interest expense	(78,810)	(62,210)
Total nonoperating expenses - Net	(12,430,492)	(13,443,338)
Net Income (Changes in Net Position)	32,403,126	14,116,063
Net Position - Beginning of year	570,497,877	556,381,814
Net Position - End of year	\$ 602,901,003	\$ 570,497,877

Board of Water and Light - City of Lansing, Michigan

Statements of Cash Flows

	For the Year Ended June 30	
	2019	2018
Cash Flows from Operating Activities		
Cash received from customers	359,151,859	358,158,868
Cash paid to suppliers	(240,801,534)	(202,605,345)
Cash paid to employees	(54,272,072)	(58,221,626)
Return on equity (Note 7)	(21,110,884)	(20,561,871)
Cash from customer deposits	271,531	129,975
Interest on customer deposits	(78,810)	(62,210)
Net cash provided by operating activities	43,160,090	76,837,791
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	450,883,509	50,001
Planned, bonded, and annual construction	(126,190,596)	(77,627,731)
Principal payments on debt	(74,960,459)	(9,883,645)
Bond issuance costs	(1,915,598)	-
Interest on debt	(16,341,797)	(15,952,433)
Net cash used in capital and related financing activities	231,475,059	(103,413,808)
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	150,921,330	76,471,402
Interest received	831,335	639,673
Purchase of investments	(297,210,832)	(75,237,572)
Net cash provided by investing activities	(145,458,167)	1,873,503
Net Increase in Cash and Cash Equivalents	129,176,982	(24,702,514)
Cash and Cash Equivalents - Beginning of year	80,200,915	104,903,429
Cash and Cash Equivalents - End of year	\$ 209,377,897	\$ 80,200,915

Board of Water and Light - City of Lansing, Michigan

Statements of Cash Flows (Continued)

	For the Year Ended June 30	
	2019	2018
Balance Sheet Classifications		
Restricted cash and investments	\$ 79,607,052	\$ 50,550,600
Cash and investments	37,546,971	48,127,904
Designated cash and investments	91,631,559	88,774,893
Noncurrent restricted assets	<u>282,919,314</u>	<u>24,151,912</u>
Total cash and investments	\$ 491,704,896	\$ 211,605,309
Less noncash investments	<u>(282,326,999)</u>	<u>(131,404,394)</u>
Cash and Cash Equivalents - End of year	<u>\$ 209,377,897</u>	<u>\$ 80,200,915</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
	For the Year Ended June 30	
	2019	2018
Operating income	\$ 44,833,618	\$ 27,559,401
Adjustments to reconcile operating income to net cash from operating activities:		
Other nonoperating	(1,477,359)	(1,846,895)
Depreciation	46,123,865	44,255,255
Sewerage collection fees	1,019,935	963,577
Interest on customer deposits	(78,810)	(62,210)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	473,046	11,701
Unbilled accounts receivable (Note 1)	1,616,388	(2,413,754)
Inventories	(6,045,081)	1,500,175
Special deposit	(34,320,000)	5,648,835
Net pension asset	20,755	2,412,673
Other	14,285	3,126,359
(Decrease) increase in liabilities and deferred outflows/inflows of resources:		
Accounts payable and other accrued expenses	3,809,162	472,056
Customer deposits	271,531	129,975
Net pension asset deferrals	1,595,057	(1,963,534)
Other postemployment benefits liability and deferrals	(15,503,751)	(5,078,911)
Other	<u>807,449</u>	<u>2,123,088</u>
Total adjustments	<u>(1,673,528)</u>	<u>49,278,390</u>
Net cash provided by operating activities	<u>\$ 43,160,090</u>	<u>\$ 76,837,791</u>
Noncash Capital and Financing Activities		
Increase (decrease) in noncash investment valuations	\$ 4,633,103	\$ 194,414

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statements of Net Position

	As of June 30	
	2019	2018
Assets		
Receivable - investment interest receivable	\$ 346,702	\$ 553,132
Trade receivable - due from broker	1,539	11,853
Investments at fair value:		
Cash and money market trust fund	5,400,601	3,876,413
U.S. government obligations	23,867,491	34,494,449
Fixed income securities	26,488,080	47,121,007
Mutual funds	278,567,529	252,188,400
Stable value	36,352,914	35,135,911
Common stock	77,698,376	62,052,966
Self-directed brokerage account	3,787,956	2,144,556
Participant notes receivable	3,422,076	3,649,872
Total investments	<u>455,585,023</u>	<u>440,663,574</u>
Liabilities		
Trade payable - due to broker	<u>81,828</u>	<u>154,385</u>
Net Position - Held in trust for pension and other employee benefits	<u>\$ 455,851,436</u>	<u>\$ 441,074,174</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	
	2019	2018
Increases		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	\$ 10,999,681	\$ 17,115,698
Interest and dividend income	<u>16,112,845</u>	<u>14,665,987</u>
Net investment income (loss)	27,112,526	31,781,685
Employer contributions	15,895,922	16,930,215
Participant rollover contributions	1,786,985	1,648,509
Interest from participant notes receivable	<u>210,373</u>	<u>156,090</u>
Total increases	45,005,806	50,516,499
Decreases		
Retiree benefits paid	29,059,604	33,737,868
Loan defaults	247,237	209,514
Participants' note and administrative fees	<u>921,703</u>	<u>993,705</u>
Total decreases	<u>30,228,544</u>	<u>34,941,087</u>
Change in Net Position Held in Trust	14,777,262	15,575,412
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	<u>441,074,174</u>	<u>425,498,762</u>
End of year	<u>\$ 455,851,436</u>	<u>\$ 441,074,174</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 1 – Significant Accounting Policies

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

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

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

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

Fiduciary funds

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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 2018, the GASB issued statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This standard was implemented effective July 1, 2018 for the enterprise fund.

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018

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	
	2019	2018
Designated purpose:		
Coal inventory fluctuation	\$ 4,885,785	\$ 4,667,114
Litigation, environmental, and uninsured losses	19,754,722	18,867,177
Future water facilities	<u>3,982,401</u>	<u>3,802,319</u>
Subtotal	28,622,908	27,336,610
Special purpose – Future construction	<u>63,008,651</u>	<u>61,438,283</u>
Total	<u>\$ 91,631,559</u>	<u>\$ 88,774,893</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 2019 and 2018 are as follows:

	2019	2018
Customer receivables	\$ 20,283,557	\$ 20,118,859
Sewerage collections	2,472,766	2,367,863
Miscellaneous	2,830,917	3,573,564
Less allowance for doubtful accounts	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Net	<u>\$ 24,087,240</u>	<u>\$ 24,560,286</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 1 – Significant Accounting Policies (Continued)

Special Deposit – In 2018, the BWL contracted with Consumer’s Energy to install a new gas pipeline. Under the terms of the contract, the BWL will make installment payments of \$52,000,000 throughout the construction period. Based on usage of the new pipeline, the BWL is eligible to recover all but \$10,000 of the installment payments. As of June 30, 2019, the BWL estimates it will recover at least \$34,320,000 of the installment payments based on expected usage. The long-term other asset for the Consumer’s Energy deposit recorded was \$34,320,000 and \$0 in 2019 and 2018, 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>2019</u>	<u>2018</u>
Coal	\$ 15,002,110	\$ 10,207,127
Gas	663,786	478,312
Materials and supplies	<u>14,300,913</u>	<u>13,236,289</u>
Total	<u>\$ 29,966,809</u>	<u>\$ 23,921,728</u>

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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 2019 and 2018, 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)	
		2019	2018
Water	4-100	2.1	2.1
Electric	4-50	4.2	4.3
Steam	5-50	3.2	3.2
Chilled water	5-50	3.5	3.5
Common facilities	4-50	5.3	5.2

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 \$12,341,043 and \$12,123,593 as of June 30, 2019 and 2018, respectively.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018 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 Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light (“Plan”), a trust fund of the BWL, and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 1 – Significant Accounting Policies (Continued)

Inter-utility Transactions – The water, electric, steam, and chilled water operations of the BWL bill each other for services provided and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated \$9,350,898 and \$8,448,086 in 2019 and 2018, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net position.

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

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

Note 2 – Cash, Investments, and Fair Value Disclosure

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, the BWL had \$15,777,227 and \$19,701,949, 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, 2019 and 2018

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

At June 30, 2019, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$360,476,059	Counterparty

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

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

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

Investment	Fair Value	Less than		
		1 year	1–5 years	6–10 years
Pooled investment funds	\$ 19,221,298	\$ 19,221,298	\$ –	\$ –
U.S. treasury bonds	324,831,542	223,453,298	101,378,244	–
U.S. agency bonds/notes	29,217,335	7,323,628	15,385,570	6,508,137
Supra national agency bonds	6,427,183	758,658	5,668,525	–
Mutual funds	82,303,978	82,303,978	–	–
Total	<u>\$ 462,001,336</u>	<u>\$ 333,060,860</u>	<u>\$ 122,432,339</u>	<u>\$ 6,508,137</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

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	22,671,252	22,671,252	-	-
Total	<u>\$ 175,852,678</u>	<u>\$87,208,854</u>	<u>\$ 83,707,970</u>	<u>\$ 4,935,854</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, 2019, the credit quality ratings of debt securities are as follows:

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

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>
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

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, 2019 and 2018, the BWL's investment portfolio was concentrated as follows:

<u>Investment</u>	<u>2019</u>	<u>2018</u>
Fannie Mae	1%	9%
Freddie Mac	2%	8%
GovMIC	4%	13%

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, 2019 and 2018

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

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	<u>\$ -</u>	<u>\$ 132,387,636</u>	<u>\$ -</u>	<u>\$ 132,387,636</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

Fiduciary Fund Investments

Interest Rate Risk – Pension Trust Funds

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

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

Credit Risk – Pension Trust Funds

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

As of June 30, 2018, 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	\$ 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

Fair Value – Pension Trust Funds

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018:

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

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018:

Investment Type	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ -	\$ 5,400,601	\$ -	\$ 5,400,601
U.S. government obligations	-	23,867,491	-	23,867,491
Fixed income securities	-	26,488,080	-	26,488,080
Mutual funds	147,768,040	121,859,463	-	269,627,503
Common stocks	77,698,376	-	-	77,698,376
Self-directed brokerage account	<u>3,787,956</u>	-	-	<u>3,787,956</u>
Total investments by fair value level	<u>\$ 229,254,372</u>	<u>\$ 177,615,635</u>	<u>\$ -</u>	<u>\$ 406,870,007</u>
Investments measured at the net asset value (NAV)				
Stable value				36,352,914
Guaranteed lifetime income				<u>8,940,026</u>
Total investments measured at fair value				<u>\$ 452,162,947</u>
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>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>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

Investments Measured Using NAV per Share Practical Expedient: The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$36,352,914 and \$35,135,911 as of June 30, 2019 and 2018, respectively and the guaranteed lifetime income fund had a fair value of \$8,940,026 and \$8,638,662, 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, 2017A, 2018A, and 2019A 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, 2019	Carrying Value	
		2019	2018
Current			
Operations and Maintenance Fund	\$ 33,793,509	\$ 71,340,480	\$ 82,175,293
Bond and Interest Redemption Fund	<u>45,813,543</u>	<u>45,813,543</u>	<u>16,503,211</u>
Total current	<u>79,607,052</u>	<u>117,154,023</u>	<u>98,678,504</u>
Noncurrent			
Bond Reserve Fund	-	-	24,151,912
Construction Fund	<u>282,919,314</u>	<u>282,919,314</u>	<u>-</u>
Total noncurrent	<u>282,919,314</u>	<u>282,919,314</u>	<u>24,151,912</u>
Total	<u>\$ 362,526,366</u>	<u>\$ 400,073,337</u>	<u>\$ 122,830,416</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 2019 and 2018.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2017A, and 2019A 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. This requirement was removed by the 2019A Revenue bonds. As of June 30, 2019, the cost basis in the fund was \$0.
- **Construction Fund** – Restricted for utility system upgrades as required by the 2019A Revenue Bonds.

Note 4 – Utility Plant

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2019 and 2018:

Capital Asset Activity for Year Ended June 30, 2019

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2019

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

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

Capital Asset Activity for Year Ended June 30, 2018

	Capital Assets FY Start	Transfers	Acquisition	Retirement	Capital Assets FY End
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	19,591,830	(67,862,791)	86,789,362	-	38,518,401
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, 2019 and 2018

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	(47,306,279)	(101,871)	(4,757,200)	4,631,497	(47,533,853)
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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 5 – Long-term Debt

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

	2019	2018
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bonds, Series 2019A, due serially beginning July 1, 2020 and continuing through July 1, 2048, plus interest at rates ranging from 4.00% to 5.00%. Original amount of issue \$319,875,000.	\$ 319,875,000	\$ -
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.	15,035,000	16,560,000
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
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.	249,980,000	249,985,000
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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 5 – Long-term Debt (Continued)

	<u>2019</u>	<u>2018</u>
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%. Original amount of issue \$13,225,385.	\$ 6,745,123	\$ 7,389,778
Lansing Economic Development Corp due in monthly installments of \$4,500 through 2022.	13,500	18,000
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.	3,283,939	3,410,245
Bond anticipation note for a future issuance of revenue bonds pertaining to a natural gas combined cycle facility and other system improvements.	<u>-</u>	<u>50,001</u>
Total	625,297,562	314,833,024
Less current portion	(7,608,792)	(9,360,459)
Plus unamortized premium	<u>77,011,183</u>	<u>12,408,334</u>
Total long-term portion	<u>\$ 694,699,953</u>	<u>\$ 317,880,899</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, 2019 and 2018

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>
2020	\$ 7,608,792	\$ 31,443,424	\$ 39,052,216
2021	7,942,341	30,844,871	38,787,212
2022	11,242,081	30,489,233	41,731,314
2023	11,773,537	29,938,219	41,711,756
2024	12,329,635	29,360,237	41,689,872
2025–2029	69,599,982	137,279,493	206,879,475
2030–2034	85,576,836	118,302,880	203,879,716
2035–2039	108,826,527	94,282,754	203,109,281
2040–2044	165,346,527	66,183,523	231,530,050
2045–2048	<u>145,051,304</u>	<u>18,562,929</u>	<u>163,614,233</u>
Total	<u>\$ 625,297,562</u>	<u>\$ 586,687,563</u>	<u>\$ 1,211,985,125</u>

The 2008A, 2011A, 2012A, 2013A, and 2017A Bonds required the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. This requirement was removed with the 2019A Bonds. As of June 30, 2019, the balance of this reserve account was \$0 (see Note 3).

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL. All bonds were issued on a parity basis and are payable solely from the net revenue of the combined water, electric, chilled water, and steam operations of the BWL.

The 2019A Bonds are payable in annual installments in the years 2022 through 2028, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2028 shall be subject to redemption at the option of the BWL in such order of maturity as the BWL shall determine, and within a single maturity by lot, on any date on or after July 1, 2028 at par plus accrued interest to the fixed date for redemption.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 5 – Long-term Debt (Continued)

The 2017A Bonds are payable in annual installments in the years 2019 through 2027, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds, or portions of the bonds in multiples of \$5,000 maturing or subject to mandatory redemption in the years 2028 and thereafter, shall be subject to redemption at the option of the BWL in such order of maturity as the BWL shall determine, and within a single maturity by lot, on any date on or after July 1, 2027 at par plus accrued interest to the fixed date for redemption.

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

The 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. These bonds were refinanced as part of the 2019A Bonds.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 5 – Long-term Debt (Continued)

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

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

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds total \$1,211,985,125. During the current year, net revenues of the BWL were \$94,002,000 compared to the annual debt requirements of \$21,883,000.

The long-term debt activity for the year ended June 30, 2018 is as follows:

	<u>Revenue Bonds</u>	<u>Other Notes</u>	<u>Total</u>
Beginning balance	\$ 325,875,924	\$ 12,491,666	\$ 338,367,590
Additions	-	50,001	50,001
Reductions	<u>(9,502,588)</u>	<u>(1,673,645)</u>	<u>(11,176,233)</u>
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, 2019 and 2018

Note 6 – Costs/Credits Recoverable in Future Years

Environmental Remediation

During the year ended June 30, 2006, the GASB 49 environmental remediation liability related to a second landfill was approved for regulated entity accounting under GASB 62. The balance of the regulatory asset at June 30, 2019 and 2018 was \$485,811 and \$620,768, 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, 2019 and 2018 for additional sites was \$1,949,918 and \$2,363,018, 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 \$(8,087,614) and \$(4,908,441) at June 30, 2019 and 2018, 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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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 \$3,811,772 and \$5,652,720 as of June 30, 2019 and 2018, 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 \$1,321,629 and \$1,541,901 as of June 30, 2019 and 2018, 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, 2019 and 2018 was \$9,744,369 and \$10,726,994, respectively.

Other Items

Other items recognized as recoverable inflows total \$500,000 and zero at June 30, 2019 and 2018, respectively.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 7 – Transactions with the City of Lansing, Michigan

Operations – The BWL recognized revenue of \$12,714,325 and \$8,492,561 in 2019 and 2018, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$824,634 and \$839,024 in 2019 and 2018, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$1,019,935 and \$963,577 in 2019 and 2018, 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 \$21,110,884 in 2019 and \$20,561,871 in 2018 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, 2019 and 2018

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

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2019 and 2018.

Employees Covered by Benefit Terms – At February 28, 2019 and 2018 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	<u>2019</u>	<u>2018</u>
Inactive plan members or beneficiaries currently receiving benefits	337	352
Inactive plan members entitled to but not yet receiving benefits	3	4
Active plan members	<u>5</u>	<u>8</u>
Total	<u>345</u>	<u>364</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2018 and 2019. 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, 2019 and 2018

Note 8 – Retirement Plans (Continued)

Net Pension Asset – The components of the net pension asset of the BWL at June 30, 2019 and June 30, 2018 were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 53,826	\$ 55,751
Plan fiduciary net pension	<u>60,422</u>	<u>62,367</u>
Plan's net pension asset	<u>\$ (6,596)</u>	<u>\$ (6,616)</u>
Plan fiduciary net position, as a percentage of the total pension liability	112.25%	111.87%

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

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2017	\$ 56,895	\$ 65,924	\$ (9,029)
Changes for the year:			
Service cost	50	-	50
Interest	4,031	-	4,031
Differences between expected and actual experience	(230)	-	(230)
Changes in assumptions	1,419	-	1,419
Net investment income	-	3,112	(3,112)
Benefit payments, including refunds	(6,414)	(6,414)	-
Administrative expenses	-	(255)	255
Miscellaneous other charges	-	-	-
Net changes	(1,144)	(3,557)	2,413
Balances at June 30, 2018	<u>\$ 55,751</u>	<u>\$ 62,367</u>	<u>\$ (6,616)</u>
Changes for the year:			
Service cost	\$ 60	\$ -	\$ 60
Interest	3,691	-	3,691
Differences between expected and actual experience	(743)	-	(743)
Changes in assumptions	1,210	-	1,210
Net investment income	-	4,381	(4,381)
Benefit payments, including refunds	(6,143)	(6,143)	-
Administrative expenses	-	(183)	183
Miscellaneous other charges	-	-	-
Net changes	(1,925)	(1,945)	20
Balance at June 30, 2019	<u>\$ 53,826</u>	<u>\$ 60,422</u>	<u>\$ (6,596)</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

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

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	\$ –

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

<u>Years Ending June 30</u>	
2020	\$ 573,362
2021	(460,342)
2022	270,786
2023	<u>(46,534)</u>
Total	<u>\$ 337,272</u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2019 and June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2019</u>	<u>2018</u>
Inflation	2.50%	3.00%
Salary increases	3.50%	3.50%
Investment rate of return	7.00%	7.00%

Mortality rates were based on the PUB-2010 General Employees Mortality Table with MP-2018 Improvement Scale for the June 30, 2019 valuation. The June 30, 2018 valuation used the RP-2014 Total Dataset Mortality adjusted to 2006 and projected using the MP-2017 scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 5 active participants in fiscal year 2019 and 8 active participants in fiscal year 2018, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Discount Rate – The discount rate used to measure the total pension liability was 7 percent in 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

Projected Cash Flows

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

The long-term expected rate of return on Defined Benefit Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2019 and 2018 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>2019 Long-term Expected Real Rate of Return</u>	<u>2018 Long-term Expected Real Rate of Return</u>
Fixed income	2.62%	2.74%
Domestic equity	7.82%	8.16%
International equity	8.34%	8.73%
Real estate	6.78%	5.91%
Multi-sector	3.49%	3.60%
Absolute return	3.75%	3.82%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019, calculated using the discount rate of 7.0 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (6.0 percent) or 1 percentage-point higher (8.0 percent) than the current rate:

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

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:

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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

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

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 9.5 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees. No participant contributions are required.

During the years ended June 30, 2019 and 2018, the BWL contributed \$6,618,384 and \$6,534,888, respectively. The BWL's contributions are recognized in the period that the contributions are due.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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 745 participants eligible to receive benefits at June 30, 2019 and 728 participants eligible at June 30, 2018.

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, 2019 and 2018, the cost to BWL of maintaining the Retiree Benefit Plan and Trust was \$9,277,538 and \$10,395,327, of which respectively, was incurred as direct costs of benefits.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019, the following employees were covered by the benefit terms:

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

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>

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, 2019 and 2018, the actual contribution rates of the BWL were 16.3 percent and 18.7 percent of covered–employee payroll, respectively.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

The BWL has chosen to use June 30, 2018 as its measurement date for fiscal year 2018. The June 30, 2018 reported net OPEB 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.

Actuarial Assumptions – The total OPEB liability in the June 30, 2019 and June 30, 2018 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 2019	<u>FYE</u>	<u>Medical / RX</u>		<u>Part B</u>	<u>Dental</u>
		<u>Pre-65</u>	<u>Post-65</u>		
2019	8.50%	7.00%	3.00%	5.00%	
2020	8.25%	6.75%	3.25%	4.75%	
2021	8.00%	6.50%	3.50%	4.50%	
2022	7.75%	6.25%	3.75%	4.25%	
2023	7.50%	6.00%	4.00%	4.00%	
2024	7.25%	5.75%	4.25%	4.00%	
2025	7.00%	5.50%	4.50%	4.00%	
2026	6.75%	5.25%	4.75%	4.00%	
2027	6.50%	5.00%	5.00%	4.00%	
2028	6.25%	4.75%	5.00%	4.00%	
2029	6.00%	4.50%	5.00%	4.00%	
2030	5.75%	4.25%	5.00%	4.00%	
2031	5.50%	4.25%	5.00%	4.00%	
2032	5.25%	4.25%	5.00%	4.00%	
2033	5.00%	4.25%	5.00%	4.00%	
2034	4.75%	4.25%	5.00%	4.00%	
2035	4.50%	4.25%	5.00%	4.00%	

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

2018	<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%

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

2018 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.

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, 2019 and 2018:

<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%

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.6%
Multi-Sector	3.5
Absolute return	3.8
U.S. large cap equity	7.2
U.S. small cap equity	8.4
Non-U.S. equity	8.3
Core real estate	6.8
Value add RE	7.3

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

For the June 30, 2019 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, 2019 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, 2019 and 2018 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, 2019 and 2018

Note 8 – Retirement Plans (Continued)

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2017	\$ 205,624,392	\$ 173,635,057	\$ 31,989,335
Changes for the year:			
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
Net changes	(2,137,327)	10,404,567	(12,541,894)
Balances at 6/30/2018	\$ 203,487,065	\$ 184,039,624	\$ 19,447,441

Sensitivity of the net OPEB liability (asset) to changes in the discount rate – The following presents the net OPEB liability (asset) of BWL, as well as what BWL’s net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current discount rate (7.5 percent) as of June 30, 2019 and 2018:

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

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

	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)

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 (7.5 percent decreasing to 3.25 percent) or 1–percentage–point higher (9.5 percent decreasing to 5.25 percent) than the current healthcare cost trend rates as of June 30, 2019:

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

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:

	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

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, 2019 GASB 74/75 Report, issued July 12, 2019.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Retirement Plans (Continued)

For the year ended June 30, 2019, the Plan recognized OPEB expense of \$(6,226,213). At June 30, 2019, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

2020	\$(11,920,727)
2021	(11,920,727)
2022	(10,663,457)
2023	(11,305,754)
2024	(10,846,876)
Thereafter	(3,634,661)

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>-</u>	<u>2,203,522</u>
Total	<u><u>\$ 3,655,674</u></u>	<u><u>\$ 13,395,378</u></u>

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019, the BWL has two letters of credit in the amounts of \$817,000 and \$1,000,000 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL received landfill closure approval as well as interim remediation approval. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of \$6,902,174 and \$7,321,928 for the years ended June 30, 2019 and 2018, 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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling \$12,102,000 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 \$18,601,000 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 \$463,704,000 and \$492,873,000 at June 30, 2019 and 2018, respectively, including commitments on existing construction contracts approximating \$139,992,000 and \$122,664,000 at June 30, 2019 and 2018, 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, 2019 and 2018

Note 10 – Power Supply Purchase

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

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

<u>Year</u>	<u>Capital</u>	<u>Estimated Fixed Operating Costs</u>	<u>Total Required</u>
2020	\$ 562,536	\$ 14,086,302	\$ 14,648,838
Total	<u>\$ 562,536</u>	<u>\$ 14,086,302</u>	<u>\$ 14,648,838</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 2019 and 2018 of \$28,650,463 and \$36,653,466, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and capital costs.

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, and includes an early termination option. The power to be purchased in the contract is 11.2 megawatts. The estimated total cost of electricity expected to be purchased and estimated termination payments is \$23,045,115.

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, 2017A, and 2019A to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

The estimated liability for excess earnings was \$0 at June 30, 2019 and 2018. 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, 2019 and 2018

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		
	2019	2018	2017	2019	2018	2017
Unpaid claims – Beginning of year	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000	\$ 1,167,466	\$ 1,167,466	\$ 1,167,466
Incurred claims, including claims incurred but not reported	390,707	128,524	86,951	11,990,226	14,494,539	13,838,436
Claim payments	<u>(390,707)</u>	<u>(128,524)</u>	<u>(86,951)</u>	<u>(11,990,226)</u>	<u>(14,494,539)</u>	<u>(13,838,436)</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. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, Statement No. 87, *Leases* and Statement No. 91, *Conduit Debt Obligations*. When they become effective, application of these standards may restate portions of these financial statements.

Required Supplemental Information

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

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

	2019	2018	2017	2016	2015	2014	2013	2012*	2011*	2010*
Total Pension Liability										
Service cost	\$ 60	\$ 50	\$ 113	\$ 223	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -
Interest	3,691	4,031	4,317	4,625	4,919	4,751	5,085	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(743)	(230)	(383)	299	(1,093)	964	(1,716)	-	-	-
Changes in assumptions	1,210	1,419	(857)	(1,468)	-	4,538	-	-	-	-
Benefit payments, including refunds	(6,143)	(6,414)	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-
Net Change in Total Pension Liability	(1,925)	(1,144)	(4,283)	(4,217)	(3,946)	2,061	(4,001)	-	-	-
Total Pension Liability - Beginning of year	55,751	56,895	61,178	65,395	69,341	67,280	71,281	-	-	-
Total Pension Liability - End of year	53,826	55,751	56,895	61,178	65,395	69,341	67,280	-	-	-
Plan Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	4,381	3,112	8,272	47	1,771	14,243	10,170	-	-	-
Administrative expenses	(183)	(255)	(317)	(388)	(576)	(596)	(536)	-	-	-
Benefit payments, including refunds	(6,143)	(6,414)	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	(1,945)	(3,557)	482	(8,237)	(6,850)	5,106	1,857	-	-	-
Net Position Restricted for Pensions - Beginning of year	62,367	65,924	65,442	73,679	80,529	75,424	73,567	-	-	-
Net Position Restricted for Pensions - End of year	60,422	62,367	65,924	65,442	73,679	80,530	75,424	-	-	-
BWL Net Pension Asset - Ending	\$ (6,596)	\$ (6,616)	\$ (9,029)	\$ (4,264)	\$ (8,284)	\$ (11,189)	\$ (8,144)	\$ -	\$ -	\$ -
Plan Net Position as a % of Total Pension Liability	112.25%	111.87%	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %	- %
Covered Employee Payroll	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ -	\$ -	\$ -
BWL's Net Pension Asset as a % of Covered Employee Payroll	(1,625%)	(1,097%)	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2010 - 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)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	86	2,109
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ 2,398	\$ 2,660	\$ 3,089
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	- %	- %	3.23%	68.27%

**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)**

	2019	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*
Total OPEB Liability										
Service cost	\$ 4,403	\$ 4,827	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	14,920	15,039	14,226	-	-	-	-	-	-	-
Changes in benefit terms	(415)	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(5,231)	(9,880)	5,281	-	-	-	-	-	-	-
Changes in assumptions	(59,336)	(1,728)	(2,027)	-	-	-	-	-	-	-
Benefit payments, including refunds	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-	-
Net Change in Total OPEB Liability	(54,937)	(2,137)	11,036	-	-	-	-	-	-	-
Total OPEB Liability - Beginning of year	203,487	205,624	194,588	-	-	-	-	-	-	-
Total OPEB Liability - End of year	148,550	203,487	205,624	-	-	-	-	-	-	-
Trust Net Position										
Contributions - Employer	9,278	10,395	9,574	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	11,688	11,039	18,040	-	-	-	-	-	-	-
Administrative expenses	(569)	(634)	(705)	-	-	-	-	-	-	-
Benefit payments, including refunds	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	11,119	10,405	17,335	-	-	-	-	-	-	-
Trust fiduciary net position - Beginning of year	184,040	173,635	156,300	-	-	-	-	-	-	-
Trust fiduciary net position - End of year	195,159	184,040	173,635	-	-	-	-	-	-	-
BWL Net OPEB Liability - Ending	\$ (46,609)	\$ 19,447	\$ 31,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Trust Fiduciary Net Position as a % of Total OPEB Liability	131.38%	90.44%	84.44%	- %	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	\$ 56,785	\$ 55,650	\$ 54,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BWL's Net OPEB Liability as a % of Covered Employee Payroll	(82.08%)	34.95%	58.82%	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 75 was implemented as of June 30, 2016. Information from 2010 - 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			
6/30/2010*	21,291	21,318	27	-	-
6/30/2011	17,300	17,236	(64)	47,213	37%
6/30/2012	15,774	15,854	80	46,885	34%
6/30/2013	13,994	14,045	51	47,468	30%
6/30/2014	9,200	9,268	68	46,971	20%
6/30/2015	5,762	9,671	3,909	50,885	19%
6/30/2016	5,788	9,423	3,635	53,893	17%
6/30/2017	7,508	9,574	2,066	54,383	18%
6/30/2018	7,535	10,395	2,860	55,650	19%
6/30/2019	7,031	9,278	2,247	56,785	16%

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

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2019 and 2018

Defined Benefit Plan:

Actuarial valuation information relative to the determination of contributions:

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

Methods and assumptions used to determine contribution rates:

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

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

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 from the RP-2014 Total Dataset adjusted to 2006 and using the MP-2017 improvement 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%.

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2019 and 2018

Post Retirement Benefit Plan:

Actuarial valuation information relative to the determination of contributions:

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

Methods and assumptions used to determine contribution rates:

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

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

Board of Water and Light – City of Lansing, Michigan

Notes to Required Supplementary Information (Unaudited) As of and for the Years Ended June 30, 2019 and 2018

Significant Changes:

June 30, 2019

- > Difference between actual and expected experience – The \$5.2 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2019 is primarily due to favorable demographic experience. The favorable experience is mainly attributable to terminations of active participants and deaths of participants with and without beneficiaries.
- > Assumption changes – (1) The plan experienced a \$54.4 million gain on the Total OPEB Liability due to a change of the assumed per capita claims cost. The Board changed the Plan's insurance provider for Medicare eligible participants from The Hartford and Envision Insurance to Humana. Doing so resulted in a dramatic decrease in both the medical and prescription drug monthly premiums from the prior fiscal year (\$98.99 per month vs. \$219.54 per month for medical coverage and \$213.47 per month vs. \$305.00 per month for prescription drug coverage); (2) The Plan experienced a \$3.8 million loss on the mortality assumption change. The mortality assumption was updated from the RPH-2014 Total Dataset mortality, adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUBH-2010 General Employees mortality, projected generationally using the MP-2018 improvement scale; and (3) The Plan experienced a \$8.7 million gain on a change to the medical and prescription drug trend assumptions. The trend assumptions were changed to those prescribed under the Michigan Uniform Assumptions for the 2019 fiscal year.
- > Change in benefit terms – The Plan experienced a \$.4 million gain due to an expected increase in the retiree contribution percentage for employees hired on or after January 1, 2009. The expected contribution percentage was increased from 14% to 20% of the premium charged to active employees.
- > Investment loss – During the fiscal year ending 6/30/2019 the actual return on assets was 6.36% vs. an expected return of 7.5%.

June 30, 2018

- > Difference between actual and expected experience – The \$9.9 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2018 is attributable to a reduction in the per capita claims cost used in the 6/30/2018 valuation. Better than expected claims experience during the fiscal year resulted in a decrease in the projected claims when compared to those used in the 6/30/2017 valuation.
- > Assumption change – The mortality improvement scale was updated to the MP-2017 scale.
- > Investment loss – During the fiscal year ending 6/30/2018 the actual return on assets was 6.37% vs. an expected return of 7.5%.

Additional Information

Board of Water and Light - City of Lansing, Michigan

Income Available for Revenue Bond Debt Retirement

	<u>For the Year Ended June 30</u>	
	<u>2019</u>	<u>2018</u>
Income - Before capital contributions per statement of revenues, expenses, and changes in net position	\$ 32,403,126	\$ 14,116,063
Adjustments to Income		
Depreciation and impairment	46,123,865	44,255,255
Interest on long-term debt:		
Notes	78,810	62,210
Revenue bonds	<u>15,443,098</u>	<u>13,331,897</u>
Total additional income	<u>61,645,773</u>	<u>57,649,362</u>
Income Available for Revenue Bonds and Interest Redemption	<u>\$ 94,048,899</u>	<u>\$ 71,765,425</u>
Debt Retirement Pertaining to Revenue Bonds		
Principal	\$ 6,820,000	\$ 8,585,000
Interest	<u>31,160,284</u>	<u>15,295,875</u>
Total	<u>\$ 37,980,284</u>	<u>\$ 23,880,875</u>
Percent Coverage of Revenue Bonds and Interest Requirements	<u>248</u>	<u>301</u>

Board of Water and Light - City of Lansing, Michigan

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

	Combined		Water		Electric		Steam		Chilled Water	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Operating Revenues										
Water	\$ 42,851,399	\$ 41,524,143	\$ 42,851,399	\$ 41,524,143	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electric:										
Retail	280,612,893	271,414,998	-	-	280,612,893	271,414,998	-	-	-	-
Sales for resale	13,487,713	21,846,410	-	-	13,487,713	21,846,410	-	-	-	-
Steam	13,740,119	12,072,017	-	-	-	-	13,740,119	12,072,017	-	-
Chilled water	6,192,397	6,225,356	-	-	-	-	-	-	6,192,397	6,225,356
Total operating revenues	356,884,521	353,082,924	42,851,399	41,524,143	294,100,606	293,261,408	13,740,119	12,072,017	6,192,397	6,225,356
Operating Expenses										
Production:										
Fuel, purchased power, and other operating expenses	125,335,173	142,679,119	10,128,854	8,900,728	108,114,467	127,702,294	5,322,283	4,637,601	1,769,569	1,438,496
Maintenance	18,941,418	16,474,970	3,803,622	3,303,312	14,084,591	12,257,504	482,628	722,446	570,577	191,708
Transmission and distribution:										
Operating expenses	8,186,690	7,929,917	1,883,305	1,639,903	6,002,627	5,977,257	300,758	312,757	-	-
Maintenance	21,688,566	19,983,487	3,118,051	3,211,987	18,132,525	16,329,536	437,990	441,964	-	-
Administrative and general	70,664,307	73,638,904	12,314,058	12,964,161	55,896,376	58,806,770	1,830,404	1,300,400	623,469	567,573
Return on Equity	21,110,884	20,561,871	2,600,113	2,465,989	17,391,645	17,067,336	734,501	652,087	384,625	376,459
Depreciation	46,123,865	44,255,255	7,276,010	6,717,444	35,007,435	33,825,801	2,650,473	2,525,735	1,189,947	1,186,275
Total operating expenses	312,050,903	325,523,523	41,124,013	39,203,524	254,629,666	271,966,498	11,759,037	10,592,990	4,538,187	3,760,511
Operating Income	44,833,618	27,559,401	1,727,386	2,320,619	39,470,940	21,294,910	1,981,082	1,479,027	1,654,210	2,464,845
Nonoperating Income (Expenses)										
Investment income	5,464,438	834,087	928,249	(28,686)	3,900,767	848,930	417,796	22,278	217,626	(8,435)
Other (expense) income	(2,373,022)	(883,318)	967,508	733,527	(3,498,560)	(1,289,108)	(62,737)	(549,009)	220,767	221,272
Bonded debt interest expense	(15,443,098)	(13,331,897)	(1,386,974)	(1,391,610)	(11,476,150)	(9,508,962)	(2,053,740)	(1,855,996)	(526,234)	(575,329)
Other interest expense	(78,810)	(62,210)	(13,648)	(7,070)	(65,057)	(55,119)	(105)	(21)	-	-
Total nonoperating expense	(12,430,492)	(13,443,338)	495,135	(693,839)	(11,139,000)	(10,004,259)	(1,698,786)	(2,382,748)	(87,841)	(362,492)
Net Income (Loss)	\$ 32,403,126	\$ 14,116,063	\$ 2,222,521	\$ 1,626,780	\$ 28,331,940	\$ 11,290,651	\$ 282,296	\$ (903,721)	\$ 1,566,369	\$ 2,102,353

Board of Water and Light - City of Lansing, Michigan

Detail of Statements of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
Net Position - June 30, 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>
Net Position - June 30, 2018	570,497,877	94,105,323	475,074,685	(5,860,414)	7,178,283
Income (loss) before contributions	<u>32,403,126</u>	<u>2,222,521</u>	<u>28,331,940</u>	<u>282,296</u>	<u>1,566,369</u>
Net Position - June 30, 2019	<u>\$ 602,901,003</u>	<u>\$ 96,327,844</u>	<u>\$ 503,406,625</u>	<u>\$ (5,578,118)</u>	<u>\$ 8,744,652</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statements of Net Position

	As of June 30, 2019			
	Defined	Defined		
	Contribution	Benefit Plan	VEBA	Total
	Plan			
Assets				
Receivable - investment interest receivable	\$ -	\$ 85,635	\$ 261,067	\$ 346,702
Trade receivable - due from broker	-	-	1,539	1,539
Investments at fair value:				
Cash and money market trust fund	-	1,963,325	3,437,276	5,400,601
U.S. government obligations	-	4,873,353	18,994,138	23,867,491
Fixed income securities	-	6,379,674	20,108,406	26,488,080
Mutual funds	156,708,066	36,596,278	85,263,185	278,567,529
Stable value	36,352,914	-	-	36,352,914
Common stock	-	10,529,824	67,168,552	77,698,376
Self-directed brokerage account	3,787,956	-	-	3,787,956
Participant notes receivable	3,422,076	-	-	3,422,076
Total investments	<u>200,271,012</u>	<u>60,342,454</u>	<u>194,971,557</u>	<u>455,585,023</u>
Liabilities				
Trade payable - due to broker	-	6,242	75,586	81,828
Net Position - Held in trust for pension and other employee benefits				
	<u>\$ 200,271,012</u>	<u>\$ 60,421,847</u>	<u>\$ 195,158,577</u>	<u>\$ 455,851,436</u>

	As of June 30, 2018			
	Defined	Defined		
	Contribution	Benefit Plan	VEBA	Total
	Plan			
Assets				
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
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
Total investments	<u>194,667,564</u>	<u>62,206,369</u>	<u>183,789,641</u>	<u>440,663,574</u>
Liabilities				
Trade payable - due to broker	-	-	154,385	154,385
Net Position - Held in trust for pension and other employee benefits				
	<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, 2019

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

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
Increases				
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
Decreases				
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>
Change in Net Position Held in Trust	8,727,671	(3,556,828)	10,404,569	15,575,412
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	<u>185,939,893</u>	<u>65,923,813</u>	<u>173,635,056</u>	<u>392,973,492</u>
End of year	<u>\$ 194,667,564</u>	<u>\$ 62,366,985</u>	<u>\$ 184,039,625</u>	<u>\$ 441,074,174</u>

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

**Financial Report
with Required Supplementary Information
As of and for the Years Ended June 30, 2019 and 2018**

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions ("Plan") as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 5, 2019

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

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:

	2019	2018	2017
Assets held in trust:			
Money market collective trust fund	\$ 1,963,325	\$ 1,890,701	\$ 1,088,909
U.S. government obligations	4,873,353	7,966,488	9,053,469
Fixed income securities	6,379,674	12,372,866	12,156,276
Mutual funds	36,596,278	26,341,508	22,381,599
Partnership	-	-	1,117,790
Common stock	10,529,824	13,634,806	19,938,242
Trade Receivable due from Broker	-	11,853	46,051
Interest and dividend receivable	85,635	148,763	153,010
Total assets held in trust	<u>\$ 60,428,089</u>	<u>\$ 62,366,985</u>	<u>\$ 65,935,346</u>
Liabilities - Accrued liabilities	\$ 6,242	\$ -	\$ 11,533
Net position restricted for pension	<u>60,421,847</u>	<u>62,366,985</u>	<u>65,923,813</u>
Total liabilities and net position	<u>\$ 60,428,089</u>	<u>\$ 62,366,985</u>	<u>\$ 65,935,346</u>
Changes in net position:			
Net investment income (loss)	\$ 4,380,722	\$ 3,112,090	\$ 8,271,675
Benefits payments	(6,142,622)	(6,413,954)	(7,472,625)
Administrative fees	(183,238)	(254,964)	(317,072)
Net change in net position	<u>\$ (1,945,138)</u>	<u>\$ (3,556,828)</u>	<u>\$ 481,978</u>

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

Management's Discussion and Analysis

During fiscal year 2019, net investment gain was \$4,380,722. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

The Board of Water and Light – City of Lansing, Michigan's ("BWL") actuarially determined contribution (ADC) as determined by the BWL's actuary was \$0 in fiscal year 2019, therefore no employer contributions were made.

Investment Objectives and Asset Allocation

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

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

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

Management's Discussion and Analysis

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 2019. The BWL does not expect to make contributions to the trust in fiscal year 2020.

The Plan expects to make annual withdrawals of approximately \$6,000,000 to cover participant benefits in fiscal year 2020.

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

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

Statement of Plan Fiduciary Net Position

	As of June 30	
	2019	2018
Assets		
Investments at fair value:		
Cash and money market trust fund	\$ 1,963,325	\$ 1,890,701
U.S. government obligations	4,873,353	7,966,488
Fixed income securities	6,379,674	12,372,866
Mutual funds	36,596,278	26,341,508
Common stocks	10,529,824	13,634,806
	<hr/>	<hr/>
Total investments at fair value	60,342,454	62,206,369
Trade receivable - due from broker	-	11,853
Receivable - investment interest receivable	85,635	148,763
	<hr/>	<hr/>
Total assets	60,428,089	62,366,985
Liabilities		
Trade payable - due to broker	6,242	-
	<hr/>	<hr/>
Net Position Restricted for Pensions	\$ 60,421,847	\$ 62,366,985
	<hr/> <hr/>	<hr/> <hr/>

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	
	2019	2018
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 2,540,532	\$ 1,521,207
Interest and dividend income	<u>1,840,190</u>	<u>1,590,883</u>
Total investment income	<u>4,380,722</u>	<u>3,112,090</u>
Deductions		
Retiree benefits paid	6,142,622	6,413,954
Administrative expenses	<u>183,238</u>	<u>254,964</u>
Total deductions	<u>6,325,860</u>	<u>6,668,918</u>
Net Increase (Decrease) in Net Position	(1,945,138)	(3,556,828)
Net Position Restricted for Pensions		
Beginning of year	<u>62,366,985</u>	<u>65,923,813</u>
End of year	<u>\$ 60,421,847</u>	<u>\$ 62,366,985</u>

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

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

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

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

Note 2 - Plan Description

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

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

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 2 - Plan Description (Continued)

Plan Membership – At February 28, 2019 and February 28, 2018 (the most recent actuarial valuation for funding purposes), Plan membership consisted of the following:

	<u>2019</u>	<u>2018</u>
Inactive Plan members or beneficiaries currently receiving benefits	337	352
Inactive Plan members entitled to but not yet receiving benefits	3	4
Active Plan members	<u>5</u>	<u>8</u>
Total	<u><u>345</u></u>	<u><u>364</u></u>

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

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

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018. 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, 2019 and 2018

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 changes in interest rates will adversely affect the fair value of investments. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The average maturities of investments are as follows as of June 30, 2019:

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

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, 2019 and 2018

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

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

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, 2019:

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

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, 2019 and 2018

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

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

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, 2019 and 2018, there were no excess Plan assets available for transfer.

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018:

<u>Asset Class</u>	<u>2019 Target Allocation</u>	<u>2018 Target Allocation</u>
Global Fixed Income	40%	40%
U.S. Equities	35%	35%
Non-U.S. Equities	20%	20%
Commercial real estate	5%	5%

Rate of Return – For the year ended June 30, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 7.39 percent. For the year ended June 30, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 4.97 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, 2019 and 2018

Note 7 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2019 and 2018 were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 53,826	\$ 55,751
Plan fiduciary net pension	<u>60,422</u>	<u>62,367</u>
Plan's net pension asset	<u>\$ (6,596)</u>	<u>\$ (6,616)</u>
Plan fiduciary net position, as a percentage of the total pension liability	112.25%	111.87%

Actuarial Assumptions – The June 30, 2019 total pension liability was determined by an actuarial valuation as of February 28, 2019, which used updated procedures to roll forward the estimated liability to June 30, 2019. The 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 total pension liability is determined by the Plan's independent actuary and is that amount that results from applying actuarial assumptions to adjust the total pension liability to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Benassist Actuaries was the actuary for the February 28, 2019 and February 28, 2018 valuations, respectively. The valuations used the following actuarial assumptions, applied to all periods included in the measurement:

	<u>February 28, 2019</u>	<u>February 28, 2018</u>
Inflation	2.50%	3.00%
Salary increases	3.50%	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, 2019 and 2018

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

The mortality table was based on the PUB-2010 General Mortality Table, Male and Female, projected generationally using the MP-2018 projection scale for the June 30, 2019 valuation. The June 30, 2018 valuation used the RP-2014 Total Dataset Mortality adjusted to 2006 and projected using the MP-2017 scale.

Discount Rate – The discount rate used to measure the total pension liability was 7.0 percent for both June 30, 2019 and June 30, 2018. The projection of cash flows used to determine the discount rate in both years assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2019 and 2018 for each major asset class included in the Plan's target asset allocation, as disclosed in Note 6, are summarized in the following table:

Asset Class	2019 Long-term Expected Real Rate of Return	2018 Long-term Expected Real Rate of Return
Fixed income	3.29%	3.23%
Domestic equity	7.61%	7.89%
International equity	8.34%	8.73%
Real estate	6.78%	5.91%

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, 2019 and 2018

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, 2019, calculated using the discount rate of 7.0 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1–percentage–point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset) of the BWL (in thousands)	\$ (1,697)	\$ (6,596)	\$ (9,365)

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)

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, 2019 and 2018

Note 8 – Fair Value Measurements

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018:

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.

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, 2019 and 2018

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, 2019 and 2018:

Investment Type	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ -	\$ 1,963,325	\$ -	\$ 1,963,325
U.S. government obligations	-	4,873,353	-	4,873,353
Fixed income securities	-	6,379,674	-	6,379,674
Mutual funds	-	36,596,278	-	36,596,278
Common stocks	<u>10,529,824</u>	-	-	<u>10,529,824</u>
Total	<u>\$ 10,529,824</u>	<u>\$ 49,812,630</u>	<u>\$ -</u>	<u>\$ 60,342,454</u>

Investment Type	June 30, 2018			
	Level 1	Level 2	Level 3	Total
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>13,634,806</u>
Total	<u>\$ 13,634,806</u>	<u>\$ 48,571,563</u>	<u>\$ -</u>	<u>\$ 62,206,369</u>

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Note 9 – Risks and Uncertainties

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

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

Note 10 – Subsequent Events

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

Required Supplementary Information

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

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

	2019	2018	2017	2016	2015	2014	2013	2012*	2011*	2010*
Total Pension Liability										
Service cost	\$ 60	\$ 50	\$ 113	\$ 223	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -
Interest	3,691	4,031	4,317	4,625	4,919	4,751	5,085	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(743)	(230)	(383)	299	(1,093)	964	(1,716)	-	-	-
Changes in assumptions	1,210	1,419	(857)	(1,468)	-	4,538	-	-	-	-
Benefit payments, including refunds	(6,143)	(6,414)	(7,473)	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-
Net Change in Total Pension Liability	(1,925)	(1,144)	(4,283)	(4,217)	(3,946)	(8,046)	(4,001)	-	-	-
Total Pension Liability - Beginning of year	55,751	56,895	61,178	65,395	69,341	67,280	71,281	-	-	-
Total Pension Liability - End of year	53,826	55,751	56,895	61,178	65,395	69,341	67,280	-	-	-
Plan Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	4,381	3,112	8,272	47	1,771	14,243	10,170	-	-	-
Administrative expenses	(183)	(255)	(317)	(388)	(576)	(596)	(536)	-	-	-
Benefit payments, including refunds	(6,143)	(6,414)	(7,473)	(7,896)	(8,045)	(8,541)	(7,777)	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	(1,945)	(3,557)	482	(8,237)	(6,850)	5,106	1,857	-	-	-
Net Position Restricted for Pensions - Beginning of year	62,367	65,924	65,442	73,679	80,529	75,424	73,567	-	-	-
Net Position Restricted for Pensions - End of year	60,422	62,367	65,924	65,442	73,679	80,530	75,424	-	-	-
BWL Net Pension Asset - Ending	\$ (6,596)	\$ (6,616)	\$ (9,029)	\$ (4,264)	\$ (8,284)	\$ (11,189)	\$ (8,144)	\$ -	\$ -	\$ -
Plan Net Position as a % of Total Pension Liability	112.25%	111.87%	115.87%	106.97%	112.67%	116.14%	112.10%	- %	- %	- %
Covered Employee Payroll	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ -	\$ -	\$ -
BWL's Net Pension Asset as a % of Covered Employee Payroll	(1,625%)	(1,097%)	(1,541%)	(552%)	(814%)	(913%)	(484%)	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2010 - 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)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	86	2,109
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 406	\$ 603	\$ 586	\$ 772	\$ 1,018	\$ 1,225	\$ 1,684	\$ 2,101	\$ 2,398	\$ 2,660
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	- %	- %	3.59%	79.29%

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

Notes to Required Supplementary Information (Unaudited) Year Ended June 30, 2019

Actuarial valuation information relative to the determination of contributions:

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

Methods and assumptions used to determine contribution rates:

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

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

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 from the RP-2014 Total Dataset adjusted to 2006 and using the MP-2017 improvement 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**

	2019	2018	2017	2016	2015	2014	2013*	2012*	2011*	2010*
Annual money-weighted rate of return net of investment expense	7.39%	4.97%	12.10%	(0.49%)	1.55%	19.18%	- %	- %	- %	- %

*GASB 67 was implemented as of June 30, 2014. Information from 2010 - 2013 is not available and this schedule will be presented on a prospective basis

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

Financial Report

With Required Supplementary Information

As of and for the Years Ended June 30, 2019 and 2018

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

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the City Council,
and Commissioners of the Board of Water and Light
Lansing Board of Water and Light Defined
Contribution Plan and Trust 1
City of Lansing, Michigan

We have audited the accompanying financial statements of the Lansing Board of Water and Light Defined Contribution Plan and Trust 1 ("Plan"), as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 5, 2019

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

Management's Discussion and Analysis As of and for the Years Ended June 30, 2019 and 2018

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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets held in trust:			
Mutual funds	\$ 147,768,040	\$ 145,098,563	\$ 136,451,476
Stable value	36,352,914	35,135,911	35,270,975
Guaranteed income fund	8,940,026	8,638,662	8,491,010
Participant notes receivable and other	<u>7,210,032</u>	<u>5,794,428</u>	<u>5,726,432</u>
Net position	<u>\$ 200,271,012</u>	<u>\$ 194,667,564</u>	<u>\$ 185,939,893</u>
Changes in plan assets:			
Net investment income/(loss)	\$ 11,044,252	\$ 17,630,692	\$ 19,491,557
Employer and participant contributions	8,405,369	8,183,397	7,103,752
Benefits paid to participants	(13,639,444)	(16,928,587)	(11,877,805)
Loan defaults and other changes	<u>(206,729)</u>	<u>(157,831)</u>	<u>(8,926)</u>
Changes in net position	<u>\$ 5,603,448</u>	<u>\$ 8,727,671</u>	<u>\$ 14,708,578</u>

Investment Objectives

The principal purpose of the Lansing Board of Water and Light Defined Contribution Plan and Trust 1 ("Plan") is to provide benefits at a normal retirement age. The Plan's funds are selected to optimize return on a risk-adjusted basis within each asset class, to provide an opportunity to create a well-diversified portfolio, to control administrative and management cost, and to comply with relevant Michigan and federal law.

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

Management's Discussion and Analysis As of and for the Years Ended June 30, 2019 and 2018

Investment Objectives (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, 2019 saw a net investment gain of \$11.0 million. Total assets held in trust at the end of the fiscal year were \$200.3 million.

Future Events

The BWL has no current plans to revise the terms of its 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 Lansing Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

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

Statement of Fiduciary Net Position

	As of June 30	
	2019	2018
Assets		
Participant-directed investments (Note 1):		
Mutual funds	\$ 147,768,040	\$ 145,098,563
Stable value	36,352,914	35,135,911
Guaranteed income fund	8,940,026	8,638,662
Self-directed brokerage account	<u>3,787,956</u>	<u>2,144,556</u>
Total participant-directed investments	196,848,936	191,017,692
Participant notes receivable	<u>3,422,076</u>	<u>3,649,872</u>
Net Position Restricted for Pensions	<u>\$ 200,271,012</u>	<u>\$ 194,667,564</u>

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

Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2019	2018
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 1,406,649	\$ 8,851,973
Dividend income	9,637,603	8,778,719
Total investment income	11,044,252	17,630,692
Employer contributions (Note 1)	6,618,384	6,534,888
Participant rollover contributions	1,786,985	1,648,509
Interest from participant notes receivable	210,373	156,090
Total additions	19,659,994	25,970,179
Deductions		
Benefits paid to participants	13,639,444	16,928,587
Loan defaults	247,237	209,514
Participants' note and administrative fees	169,865	104,407
Total deductions	14,056,546	17,242,508
Net Increase in Net Position	5,603,448	8,727,671
Net Position Restricted for Pensions		
Beginning of year	194,667,564	185,939,893
End of year	\$ 200,271,012	\$ 194,667,564

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 1 - Description of the Plan

The following description of Lansing Board of Water and Light Defined Contribution Plan and Trust 1 ("Plan") provides only general information. Participants should refer to the Plan 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 Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019, there were 936 participants in the Plan, of which 665 were active employees. As of June 30, 2018, there were 918 participants in the Plan, of which 679 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 Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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 Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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 Defined Contribution Plan and Trust 1

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

Note 3 - Investments

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

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

Custodial Credit Risk of Bank Deposits – As of June 30, 2019 and 2018, the Plan has no bank deposits.

Credit Risk – Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2019, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 147,768,040	Not rated	Not rated
Stable value	36,352,914	AA	S&P

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 3 – Investments (Continued)

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

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Plan’s investment policy does not address this risk. At June 30, 2019, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual funds – Bond funds	\$17,172,978	4.9 years

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

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 4 - Plan Termination

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

Note 5 - Tax Status

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

Note 6 – Fair Value Measurements

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
 - > quoted prices for similar assets or liabilities in active markets;
 - > quoted prices for identical or similar assets or liabilities in inactive markets;
 - > inputs other than quoted prices that are observable for the asset or liability;
 - > inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
 - > if the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018:

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

Common stock and bond and equity funds: Valued at the most recent closing price reported on the market on which individual securities are traded.

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

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

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

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2018:

Investment Type	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Money market	\$ 541,492	\$ -	\$ -	\$ 541,492
Bond and equity funds	17,172,978	-	-	17,172,978
Stock funds	61,192,842	-	-	61,192,842
Balanced funds	53,135,058	-	-	53,135,058
Growth funds	-	-	-	-
International funds	15,725,670	-	-	15,725,670
Self-directed brokerage account	<u>3,787,956</u>	-	-	<u>3,787,956</u>
Total Investments by Fair Value Level	<u>\$ 151,555,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 151,555,996</u>
Investments measured at the net asset value (NAV)				
Stable value				\$ 36,352,914
Guaranteed Lifetime Income				<u>8,940,026</u>
Total Investments Measured at Fair Value				<u>\$ 196,848,936</u>

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 6 – Fair Value Measurements (Continued)

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>

Investments Measured Using NAV per Share Practical Expedient: The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$36,352,914 and \$35,135,911 as of June 30, 2019 and 2018, respectively and the guaranteed lifetime income fund had a fair value of \$8,940,026 and \$8,638,662, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

Note 7 – Risks and Uncertainties

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

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Note 8 – Subsequent Events

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

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

Financial Report

With Required Supplementary Information

As of and for the Years Ended June 30, 2019 and 2018

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan") as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 5, 2019

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

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:

	2019	2018	2017
Assets held in trust:			
Cash and money market trust funds	\$ 3,437,276	\$ 1,985,712	\$ 2,927,461
Fixed income securities	20,108,406	34,748,141	33,706,611
U.S. government obligations	18,994,138	26,527,961	29,051,025
Equities	67,168,552	48,418,160	54,440,986
Mutual funds and other	85,263,185	72,109,667	53,089,093
Interest and dividend receivable	261,067	404,369	425,197
Trade Receivable - Due from Broker	1,539	-	88,410
Total plan assets	<u>\$ 195,234,163</u>	<u>\$ 184,194,010</u>	<u>\$ 173,728,783</u>
Liabilities:			
Trade Payable - Due to Broker	\$ 75,586	\$ 154,385	\$ 93,727
Net Position Restricted for Pensions	<u>\$ 195,158,577</u>	<u>\$ 184,039,625</u>	<u>\$ 173,635,056</u>
Changes in net position:			
Net investment income	\$ 11,687,552	\$ 11,038,903	\$ 18,039,507
Employer contributions	9,277,538	10,395,327	9,573,671
Retiree benefits paid	(9,277,538)	(10,395,327)	(9,573,671)
Administrative fees	(568,600)	(634,334)	(704,793)
Net change in net position	<u>\$ 11,118,952</u>	<u>\$ 10,404,569</u>	<u>\$ 17,334,714</u>

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

Management's Discussion and Analysis

Investment Objectives and Asset Allocation

The assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan"), the BWL has 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 its investment advisor, the BWL has selected the following target asset allocation strategy:

<u>Asset Class</u>	<u>Target Asset Allocation</u>
Core bonds	15%
Multi-sector	5%
Liquid absolute return	5%
U.S. large cap equity	30%
U.S. small cap equity	10%
Non-U.S. equity	20%
Core real estate	8%
Value add RE	<u>7%</u>
Total	100%

Investment Results

The fiscal year ended June 30, 2019 saw a net investment income, net of administrative expenses, of \$11.1 million. We believe this performance is in line with the overall level of performance 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 the Lansing Board of Water and Light, Chief Financial Officer, P.O. 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	
	2019	2018
Assets		
Investments - fair value:		
Cash and money market trust funds	\$ 3,437,276	\$ 1,985,712
Fixed income securities	20,108,406	34,748,141
U.S. government obligations	18,994,138	26,527,961
Equities	67,168,552	48,418,160
Mutual funds	85,263,185	72,109,667
Total investments at fair value	194,971,557	183,789,641
Investment interest and dividend receivable	261,067	404,369
Trade receivable - due from broker	1,539	-
Total assets	195,234,163	184,194,010
Liabilities		
Trade payable - due to broker	75,586	154,385
Net position restricted for retiree benefits	\$ 195,158,577	\$ 184,039,625

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	
	2019	2018
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 7,052,500	\$ 6,742,518
Interest and dividend income	4,635,052	4,296,385
Total investment income	11,687,552	11,038,903
Employer contributions	9,277,538	10,395,327
Total additions	20,965,090	21,434,230
Deductions		
Retiree benefits paid	9,277,538	10,395,327
Administrative expenses	568,600	634,334
Total deductions	9,846,138	11,029,661
Net Increase in Net Position	11,118,952	10,404,569
Net Position Restricted for Retiree Benefits		
Beginning of year	184,039,625	173,635,056
End of year	\$ 195,158,577	\$ 184,039,625

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, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

Accounting and Reporting Principles

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

Basis of Accounting

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

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

Report Presentation

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

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

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

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

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

Note 2 - Description of the Plan

The following description of the Plan, a trust fund of the BWL, provides only general information. Participants should refer to the Plan 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 745 participants eligible to receive benefits at June 30, 2019 and 728 participants eligible at June 30, 2018.

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, 2019 and 2018

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 net position are equal to the retiree benefits paid because the actuarially determined contribution (ADC) for the year ended June 30, 2019 was less than the pay-as-you-go amount. During the years ended June 30, 2019 and 2018, the cost to BWL of maintaining the Plan was \$9,277,538 and \$10,395,327 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, 2019 and 2018, the contribution rates of the employers were 16.3 percent and 18.7 percent of covered-employee payroll, respectively.

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

Note 2 – Description of the Plan (Continued)

Participation – Participation in this Plan is determined in accordance with the terms of the Post-Retirement Benefit Plan and Trust for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2019, there were 690 active participants (not eligible to receive benefits), 78 disabled participants, 523 retired participants, and 144 surviving spouses participating in the Plan. 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.

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

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

Note 3 - Cash, Investments, and Fair Disclosure

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

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

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

Notes to Financial Statements As of and for the Years Ended June 30, 2019 and 2018

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, 2019, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government obligations	\$ 18,994,138	12.80 years
Fixed income securities	20,108,406	11.48 years
Money market trust funds	3,437,276	Less than 1 year
Portfolio weighted average maturity	-	12.12 years

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, 2019 and 2018

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

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

Investment	Fair Value	Weighted Average Maturity
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

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

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations - implicitly guaranteed	\$ 7,711,966	AA+	S&P
U.S. government obligations - implicitly guaranteed	367,684	AA	S&P
Fixed income securities	2,623,158	AAA	S&P
Fixed income securities	6,057,705	AA+	S&P
Fixed income securities	1,078,532	AA	S&P
Fixed income securities	422,260	AA-	S&P
Fixed income securities	773,675	A+	S&P
Fixed income securities	1,637,385	A	S&P
Fixed income securities	2,059,561	A-	S&P
Fixed income securities	2,972,577	BBB+	S&P
Fixed income securities	1,621,369	BBB	S&P
Fixed income securities	859,092	BBB-	S&P
Fixed income securities	3,092	B+	S&P
Money market trust funds	3,437,276	Not rated	Not rated

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, 2019 and 2018

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

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

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, 2019 and 2018

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, 2019 and 2018:

<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, 2019 and 2018, the annual money-weighted rate of return on investments, net of investment expense, was 6.36% and 6.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 – Net OPEB Liability (Asset) of BWL

Net OPEB Liability (Asset) of BWL –The components of the net OPEB liability (asset) for BWL at June 30, 2019 and 2018 were as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability	\$ 148,549,677	\$ 203,487,066
Plan fiduciary net position	<u>(195,158,575)</u>	<u>(184,039,625)</u>
BWL's net OPEB liability (asset)	<u>\$ (46,608,898)</u>	<u>\$ 19,447,441</u>
Plan fiduciary net position as a percentage of the total OPEB Liability (asset)	131.38%	90.44%

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, 2019 and 2018

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

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2019 and 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	8.50% for 2019, decreasing 0.25% per year to an ultimate rate of 4.50% in 2035 and later years

For the June 30, 2019 and 2018 valuation, mortality rates were based on the PUBH-2010 General Mortality Table projected generationally using MP-2018 scale and the RPH-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using an MP-2017 Projection Scale, respectively.

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

For the June 30, 2019 valuation, the long-term expected rate of return is 7.50%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are as follows:

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

Notes to Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.62%
Multi-sector	3.49%
Absolute return	3.75%
U.S. large cap equity	7.21%
U.S. small cap equity	8.42%
Non-U.S. equity	8.34%
Core real estate	6.78%
Value add RE	7.29%

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:

<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%

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, 2019 and 2018

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

Discount Rate – The discount rate used to measure the total OPEB liability was 7.5%. The discount rate is based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

Sensitivity of the net OPEB liability (asset) to changes in the discount rate – The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current discount rate (7.5 percent) as of June 30, 2019 and 2018:

	June 30, 2019		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(30,506,982)	\$(46,608,898)	\$(60,250,506)
	June 30, 2018		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$43,845,533	\$19,447,441	\$(991,597)

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, 2019 and 2018:

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, 2019 and 2018

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

	June 30, 2019		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability (asset)	\$(61,585,517)	\$(46,608,898)	\$(28,613,760)
	June 30, 2018		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$(2,824,476)	\$19,447,441	\$46,517,181

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.

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, 2019 and 2018

Note 7 – 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, 2019 and 2018:

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

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

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.

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, 2019 and 2018

Note 7 – 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, 2019 and 2018:

Investment Type	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ -	\$ 3,437,276	\$ -	\$ 3,437,276
Fixed income securities	-	20,108,406	-	20,108,406
U.S. government obligations	-	18,994,138	-	18,994,138
Common Stock	67,168,552	-	-	67,168,552
Mutual funds	-	85,263,185	-	85,263,185
Total	\$ 67,168,552	\$ 127,803,005	\$ -	\$ 194,971,557

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
Total	\$ 48,418,163	\$ 135,371,478	\$ -	\$ 183,789,641

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, 2019 and 2018

Note 8 – Risks and Uncertainties

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

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

Note 9 – Subsequent Events

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

Required Supplementary Information

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

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

	2019	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*
Total OPEB Liability										
Service cost	\$ 4,403	\$ 4,827	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	14,920	15,039	14,226	-	-	-	-	-	-	-
Changes in benefit terms	(415)	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(5,231)	(9,880)	5,281	-	-	-	-	-	-	-
Changes in assumptions	(59,336)	(1,728)	(2,027)	-	-	-	-	-	-	-
Benefit payments, including refunds	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-	-
Net Change in Total OPEB Liability	(54,937)	(2,137)	11,036	-	-	-	-	-	-	-
Total OPEB Liability- Beginning of year	<u>203,487</u>	<u>205,624</u>	<u>194,588</u>	-	-	-	-	-	-	-
Total OPEB Liability- End of year	148,550	203,487	205,624	-	-	-	-	-	-	-
Trust Net Position										
Contributions - Employer	9,278	10,395	9,574	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	11,688	11,039	18,040	-	-	-	-	-	-	-
Administrative expenses	(569)	(634)	(705)	-	-	-	-	-	-	-
Benefit payments, including refunds	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	11,119	10,405	17,335	-	-	-	-	-	-	-
Trust fiduciary net position Beginning of year	<u>184,040</u>	<u>173,635</u>	<u>156,300</u>	-	-	-	-	-	-	-
Trust fiduciary net position End of year	<u>195,159</u>	<u>184,040</u>	<u>173,635</u>	-	-	-	-	-	-	-
BWL Net OPEB Liability (Asset)- Ending	<u>\$ (46,609)</u>	<u>\$ 19,447</u>	<u>\$ 31,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Trust Fiduciary Net Position as a % of Total OPEB Liability (Asset)	131.38%	90.44%	84.44%	- %	- %	- %	- %	- %	- %	#
Covered Employee Payroll	\$ 56,785	\$ 55,650	\$ 54,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BWL's Net OPEB Liability (Asset) as a % of Covered Employee Payroll	(82.08%)	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			
6/30/2010*	21,291	21,318	27	-	-
6/30/2011	17,300	17,236	(64)	47,213	37%
6/30/2012	15,774	15,854	80	46,885	34%
6/30/2013	13,994	14,045	51	47,468	30%
6/30/2014	9,200	9,268	68	46,971	20%
6/30/2015	5,762	9,671	3,909	50,885	19%
6/30/2016	5,788	9,423	3,635	53,893	17%
6/30/2017	7,508	9,574	2,066	54,383	18%
6/30/2018	7,535	10,395	2,860	55,650	19%
6/30/2019	7,031	9,278	2,247	56,785	16%

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 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 Light**

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

	2019	2018	2017	2016	2015*	2014*	2013*	2012*	2011*	2010*
Annual money-weighted rate of return, net of investment expense	6.36%	6.37%	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

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2019 and 2018

Actuarial valuation information relative to the determination of contributions:

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

Methods and assumptions used to determine contribution rates:

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

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

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

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2019 and 2018

Significant Changes:

June 30, 2019

- > Difference between actual and expected experience – The \$5.2 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2019 is primarily due to favorable demographic experience. The favorable experience is mainly attributable to terminations of active participants and deaths of participants with and without beneficiaries.
- > Assumption changes – (1) The plan experienced a \$54.4 million gain on the Total OPEB Liability due to a change of the assumed per capita claims cost. The Board changed the Plan's insurance provider for Medicare eligible participants from The Hartford and EnvisionInsurance to Humana. Doing so resulted in a dramatic decrease in both the medical and prescription drug monthly premiums from the prior fiscal year (\$98.99 per month vs. \$219.54 per month for medical coverage and \$213.47 per month vs. \$305.00 per month for prescription drug coverage); (2) The Plan experienced a \$3.8 million loss on the mortality assumption change. The mortality assumption was updated from the RPH-2014 Total Dataset mortality, adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUBH-2010 General Employees Mortality, projected generationally using the MP-2018 improvement scale; and (3) The Plan experienced a \$8.7 million gain on a change to the medical and prescription drug trend assumptions. The trend assumptions were changed to those prescribed under the Michigan Uniform Assumptions for the 2019 fiscal year.
- > Change in benefit terms – The Plan experienced a \$.4 million gain due to an expected increase in the retiree contribution percentage for employees hired on or after January 1, 2009. The expected contribution percentage was increased from 14% to 20% of the premium charged to active employees.
- > Investment loss – During the fiscal year ending 6/30/2019 the actual return on assets was 6.36% vs. an expected return of 7.5%.

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

Notes to Required Supplementary Information (Unaudited) Years Ended June 30, 2019 and 2018

Significant Changes (Continued):

June 30, 2018

- > Difference between actual and expected experience – The \$9.9 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2018 is attributable to a reduction in the per capita claims cost used in the 6/30/2018 valuation. Better than expected claims experience during the fiscal year resulted in a decrease in the projected claims when compared to those used in the 6/30/2017 valuation.
- > Assumption change – The mortality improvement scale was updated to the MP-2017 scale.
- > Investment loss – During the fiscal year ending 6/30/2018 the actual return on assets was 6.37% vs. an expected return of 7.5%.

PROPOSED RESOLUTION
Fiscal Year 2019 Audited Financial Statements
of the Enterprise Fund and Pension Fiduciary Funds

RESOLVED, that the fiscal year 2019 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 2019 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, 2019.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2019 Audited Financial Statements of the Board of Water and Light with the City of Lansing no later than October 15, 2019.



Internal Audit Status Report

Presented by:
Wesley Lewis, Director of Internal Audit
Finance Committee Meeting
September 10, 2019

Overview

- FY 2019 Audit Plan Progress Report
- Background for Revised FY 2020 Audit Plan
- Proposed FY 2020 Audit Plan
- Revised Internal Audit Department Charter
- Other Items

FY 2019 Audit Plan Progress Report

Engagements Completed:

1. Customer Arrangements Audit (FY18 carryover)
2. Contract Signature Authority Compliance Audit (FY18 carryover)
3. Physical Security Audit (FY18 carryover)
4. COBIT Compliance Follow-up Audit
5. Change Management Follow-up Audit
6. Metering Services Audit
7. Vegetation Management Audit
8. Accounts Payable Audit
9. Surprise Cash Counts (2)
10. Employee Time Reporting Reviews (2)
11. Cybersecurity Policies Audit

FY 2019 Audit Plan Progress Report, cont'd

Engagement in Progress:

1. Procurement Audit (summarizing and reporting stage)

Engagement Deferred:

1. Project Engineering Audit (terminated and now deferred to FY 2021)

Proposed, Revised FY 2020 Audit Plan - Background

Basis for Plan:

1. The Predecessor Internal Auditor held meetings with Senior Management and Staff to discuss risks and potential audit topics in FY 2019.
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 more than 30 potential audits to perform in FY 2020 and beyond.
5. After the Predecessor Internal Auditor left and I came on board in July 2019, we followed-up with Senior Management on the proposed plan and determined that some of the needs of the business had changed since the initial plan was agreed upon. Thus, as a result of discussions with Senior Management, we made some revisions to the initial plan.

Proposed, Revised FY 2020 Audit Plan - Background

Top Six Engagements for FY 2020* (as discussed and agreed with Senior Management, then priority-ranked by Internal Audit in order of importance and estimated timeframes):

- 1. *Cash Management and Treasury Audit (First Time Audit)***
- 2. *Work Management (WM) (New Process and First Time Audit)***
- 3. *Customer Projects (Last Audited in March 2015 and to be executed at the same time as the WM Audit)***
- 4. *Energy Risk Management (Last Audited in June 2013)***
- 5. *IT – Vulnerability Assessments (First Time Audit) Estimated start is Q4 2020.***
- 6. *CFO – Fixed Assets (Last audited in May 2012) Estimated start is Q4 2020.***

**** This plan is subject to change. Items that could change and alter the plan include staffing efforts, upgrade in audit technology and related training, ISO certification for Internal Audit, and special engagements.***

Proposed, Revised FY 2019 Audit Plan Hours

<u>Planned Audits:</u>	Estimated Hours
Cash Management and Treasury (First Time Audit)	450
Work Management (First Time Audit)	450
Customer Projects	300
Energy Risk Management	300
IT Vulnerability Assessments (First Time Audit)	450
CFO - Fixed Assets	300
<u>Other Engagements and Projects:</u>	
Special Engagements	450
Consulting – Topics TBD	300
Periodic Reviews (cash count, time reporting, P-Card expenses, etc.)	200
Continuous Audit Involvement (BSMART, Org Change Mgt, ISO 55001, etc.)	300
Total Required Hours	3,500

Proposed, Revised FY 2020 Audit Plan Hours, Cont'd

Available Resources:

Resource	Position	Available Hours
Wesley Lewis	Director of Internal Audit	1,200
XXXXXX	Principal Internal Auditor	1,800
YYYYYY	Accounting Interns	500
Total Hours		<u>3,500</u>

Proposed Revised FY 2020 Audit Plan, Cont'd

- Questions?
- Recommend Approval of FY 2020 Audit Plan

Proposed Revised Internal Audit Department Charter

- Adds clarity and eliminates ambiguity regarding Internal Audit's rights and responsibilities.
- Promotes transparency and accountability of the Internal Audit function.
- Meets the requirements of the Institute of Internal Auditors International Audit Standards

We recommend approval of the revised Internal Audit Department Charter.

Other Items

1. Current Technology Upgrades
 - Internal Audit Management Software System
 - Information Analytics Tool, with Artificial Intelligence
2. Staffing
3. ISO Certification for Internal Audit



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

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General:

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

Organization:

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

Purpose and Mission:

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

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

Authority:

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



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

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

Independence and Objectivity:

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

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

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

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



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

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

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

Responsibility and Scope:

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

Organization:

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



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

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- Determining if management, employee and independent contractor actions are compliant with policies, procedures, standards, laws, regulations, and contracts.

Internal Audit:

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

Internal Audit Plan:

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

Reporting and Monitoring:

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

The internal audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Internal



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

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

Periodic Assessment For Quality Assurance and Improvement:

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

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

Proposed Resolution
Internal Audit Charter Approval

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