



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

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**Financial Report  
with Additional Information  
June 30, 2009**

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

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light - City of Lansing, Michigan (the BWL) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Board of Water and Light's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the BWL's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund and Pension Fiduciary Funds of the BWL as of June 30, 2009 and 2008 and the respective changes in financial position and cash flows, where applicable, as of and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the BWL's basic financial statements. The additional information on pages 48 through 54 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2009 on our consideration of the BWL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

September 18, 2009

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

## **Management's Discussion and Analysis**

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the BWL). The BWL includes the consolidated operations of the water, electric, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2009.

### **Overview of Business**

The BWL owns and operates an electric system, which generates, purchases, and distributes electric power and energy, and provides electric service to nearly 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 68 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its membership in the Michigan Public Power Agency, which includes the BWL's partial ownership of Detroit Edison's Belle River Plant and through its landfill gas renewable energy purchase agreement with Granger Electric of Lansing.

The BWL owns and operates water wells, a raw water transmission system, water conditioning facilities, and an extensive water distribution system serving potable water to nearly 55,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving nearly 240 customers, and a chilled water facility and distribution piping system serving 14 customers in the City of Lansing.

### **Capital Expenditures**

Capital expenditures are driven by the need to expand or maintain the generation, transmission, and distribution systems of the BWL to meet growing customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt principal back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were \$68.0 and \$45.7 million in fiscal years 2009 and 2008, respectively.

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

Detailed financial information for the separate utilities of water, electric, steam, and chilled water can be found in the additional information section beginning on page 48.

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

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information (dollars in millions)

	June 30			% Change 2008 to 2009
	2009	2008	2007	
<b>Assets</b>				
Utility plant	\$ 531.3	\$ 519.8	\$ 512.0	2.2
Other assets	<u>232.0</u>	<u>262.9</u>	<u>218.5</u>	(11.8)
Total assets	763.3	782.7	730.5	(2.5)
<b>Liabilities</b>				
Long-term liabilities	197.5	216.4	184.2	(8.7)
Other liabilities	<u>41.5</u>	<u>46.6</u>	<u>40.4</u>	(10.9)
Total liabilities	<u>239.0</u>	<u>263.0</u>	<u>224.6</u>	(9.1)
<b>Net Assets</b>				
Invested in capital assets	371.3	372.5	359.8	(0.3)
Restricted for debt service	39.0	37.7	33.5	3.4
Unrestricted	<u>114.0</u>	<u>109.5</u>	<u>112.6</u>	4.1
Total net assets	<u>\$ 524.3</u>	<u>\$ 519.7</u>	<u>\$ 505.9</u>	0.9

Other assets decreased by \$30.9 million. The net decrease is primarily attributable to four items; the write-off of the \$12.1 million deferred asset impairment, the use of \$17 million of construction funds for capital projects, an increase of \$9.5 million in accounts receivable and inventory, and the reclassification of deferred steam service fees which are now reflected as an allowance against the steam service fees receivable.

Other liabilities decreased by \$5.1 million due primarily to a decrease in accounts payable of \$5.7 million.

Unrestricted equity increased \$4.5 million due primarily to fiscal year 2009 net income (change in net assets) of \$4.6 million.

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

## Management's Discussion and Analysis (Continued)

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

	June 30			% Change
	2009	2008	2007	2008 to 2009
<b>Results of Operations</b>				
Operating revenue	\$ 261.7	\$ 275.7	\$ 258.9	(5.1)
Operating expenses	259.7	255.9	235.0	1.5
Nonoperating (expense) income - Net	<u>2.6</u>	<u>(6.1)</u>	<u>(0.4)</u>	(142.6)
<b>Change in Net Assets</b>	<u>\$ 4.6</u>	<u>\$ 13.7</u>	<u>\$ 23.5</u>	(66.4)

Operating revenues decreased \$14 million, due primarily to an \$18.2 million decrease in electric wholesale sales. The decrease was partly offset by increases of 2.5 percent in water, electric, steam, and chilled water rates that became effective on May 1, 2009.

Operating expenses increased \$3.8 million due to the write-off of the \$12.1 million deferred asset impairment and an increase in the required VEBA contribution of \$4.6 million. These increases were substantially offset by a BWL wide initiative launched in the fall of 2008 to significantly cut costs in response to the declining economic environment and reduced fuel costs due to reduced electricity production.

Nonoperating income (expense) increased by \$8.7 million, due primarily to the net effect of an \$11.9 million increase in other income and a \$2.6 million reduction in investment income. The \$11.9 million increase in other income was due primarily to an increase in MPPA payments from the Belle River Project of \$7 million and a \$3 million net gain on the replacement of the Ottawa Chiller Plant.

**Budget** - The BWL commissioners approved a \$271.9 million operating expense budget for fiscal year 2009. Actual expenses were \$259.7 million or 4.5 percent less than budget. The savings were mainly due to decreased fuel costs as a result of reduced production as well as a BWL wide initiative launched in the fall of 2008 to significantly cut costs in response to the declining economic environment. The net capital improvement budget was \$52.5 million for fiscal year 2009; actual net capital expenditures were \$45.7 million or 87 percent of the capital budget.

**Financing Activities** - During fiscal year 2009, Subordinate Lien Revenue Refunding Bonds, Series 2009A were issued to refund a portion of the Series 1999B Bonds resulting in reduced aggregate debt service of the BWL.

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

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## **Management's Discussion and Analysis (Continued)**

**Other Significant Items** - On January 30, 2008, the BWL entered into a Property Purchase and Development Agreement with Christman Capital Development Company. Under the terms of the agreement, the BWL transferred the property, improvements, and structures to Christman Capital Development Company for development purposes as described in the agreement in exchange for \$20 million to be used by the BWL for the construction and installation of the new Chilled Water Facilities and new Steam Facilities. The construction of new facilities is on schedule and expected to be complete by September 30, 2009 as required under the terms of the agreement.

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

	June 30	
	2009	2008
<b>Assets</b>		
<b>Current Assets</b>		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 36,467,382	\$ 35,100,621
Cash and cash equivalents (Notes 4 and 11)	42,222,456	42,726,407
Investments (Notes 1 and 11)	24,443,091	25,341,766
Accounts receivable - Net (Note 1)	31,893,837	25,321,906
Estimated unbilled accounts receivable (Note 1)	12,141,099	12,412,509
Inventories (Note 1)	22,471,012	19,556,343
Other	1,848,014	1,085,989
Total current assets	171,486,891	161,545,541
<b>Other Assets</b>		
Deferred energy cost (Note 6)	(2,794,432)	(349,108)
Deferred amortization of central utilities complex (Note 6)	4,788,533	4,761,600
Deferred environmental remediation (Note 6)	19,171,659	15,711,800
Deferred asset impairment (Note 6)	-	12,157,037
GM steam service termination fees receivable (Note 6)	12,157,037	12,157,037
GM steam service termination fees - Allowance (Note 6)	(12,157,037)	-
Other	1,372,608	3,248,865
Total other assets	22,538,368	47,687,231
<b>Noncurrent Restricted Assets</b> (Notes 4 and 11)	37,994,924	53,680,950
<b>Utility Plant</b> (Note 1)		
Water	232,205,455	213,799,616
Electric	608,017,630	592,813,733
Steam	42,350,583	55,744,957
Chilled water	28,894,846	36,285,006
Common facilities	66,904,324	62,885,529
Central Utilities Complex	76,079,000	76,079,000
Total	1,054,451,838	1,037,607,841
Less accumulated depreciation	540,637,438	545,072,378
Net	513,814,400	492,535,463
Construction in progress (Note 3)	17,470,143	27,261,463
Total utility plant	531,284,543	519,796,926
Total assets	<b>\$ 763,304,726</b>	<b>\$ 782,710,648</b>

## Statement of Net Assets

	June 30	
	2009	2008
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 18,036,705	\$ 23,745,550
Current portion of long-term debt (Note 5)	10,889,150	10,022,070
Accrued payroll and related taxes	2,266,642	2,298,066
Customer deposits	2,051,933	2,821,212
Accrued compensated absences (Note 1)	3,539,040	3,343,856
Accrued interest	4,723,597	4,394,165
Total current liabilities	41,507,067	46,624,919
<b>Compensated Absences</b> - Less current portion (Note 1)	7,292,691	7,192,732
<b>Other Long-term Liabilities</b>		
Workers' compensation	2,000,000	1,066,119
Environmental remediation liability (Note 9)	11,782,746	14,652,740
Deferred steam service termination fees (Note 6)	-	12,677,037
Arbitrage rebate requirement (Notes 4 and 12)	-	136,666
Other	2,715,019	2,538,419
Total other long-term liabilities	16,497,765	31,070,981
<b>Long-term Debt</b> - Less current portion (Note 5)	173,708,256	178,130,045
Total liabilities	239,005,779	263,018,677
<b>Net Assets</b>		
Invested in capital assets	371,252,440	372,527,509
Restricted for debt service (Note 4)	39,007,853	37,740,137
Unrestricted	114,038,654	109,424,325
Total net assets	524,298,947	519,691,971
Total liabilities and net assets	<b>\$ 763,304,726</b>	<b>\$ 782,710,648</b>

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

## Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2009	2008
<b>Operating Revenues (Note 1)</b>		
Water	\$ 27,215,900	\$ 26,730,394
Electric	220,200,316	235,579,866
Steam	9,640,959	8,696,792
Chilled water	4,670,157	4,720,885
Total operating revenues	261,727,332	275,727,937
<b>Operating Expenses</b>		
Production:		
Fuel, purchased power, and other operating expenses	134,605,416	139,215,552
Maintenance	19,449,795	22,969,955
Transmission and distribution:		
Operating expenses	6,970,410	7,896,861
Maintenance	7,188,826	8,422,127
Administrative and general	50,093,424	48,204,627
Depreciation and impairment (Note 1)	41,437,632	29,160,354
Total operating expenses	259,745,503	255,869,476
<b>Operating Income</b>	1,981,829	19,858,461
<b>Nonoperating Income (Expenses)</b>		
Investment income	3,567,772	6,160,524
Other income	14,292,802	2,402,122
System capacity fee	9,332,685	9,325,252
Bonded debt interest expense	(9,174,755)	(8,401,608)
Amortization - Central Utilities Complex	(5,045,000)	(4,700,000)
Payment in lieu of taxes (Note 7)	(10,293,071)	(10,747,503)
Other interest expense	(55,286)	(154,288)
Total nonoperating income (expenses) - Net	2,625,147	(6,115,501)
<b>Net Income (Changes in Net Assets)</b>	4,606,976	13,742,960
<b>Net Assets - Beginning of year</b>	519,691,971	505,949,011
<b>Net Assets - End of year</b>	<u>\$ 524,298,947</u>	<u>\$ 519,691,971</u>

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

## Statement of Cash Flows

	Year Ended June 30	
	2009	2008
<b>Cash Flows from Operating Activities</b>		
Cash from customers:		
Water	\$ 28,482,545	\$ 27,447,089
Electric	222,675,732	233,621,557
Steam	10,057,016	8,583,475
Chilled water	3,809,004	4,752,256
Total cash from customers	265,024,297	274,404,377
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(111,285,807)	(107,876,011)
Other suppliers	(67,723,027)	(69,668,264)
Total cash paid to suppliers	(179,008,834)	(177,544,275)
Cash paid to employees	(45,954,119)	(47,214,979)
Payment in lieu of taxes (Note 7)	(10,293,071)	(10,747,503)
Cash from customer deposits	(769,279)	195,622
Interest on customer deposits	(55,286)	(154,288)
Net cash provided by operating activities	28,943,708	38,938,954
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from new borrowings	51,681,965	43,748,820
Planned, bonded, and annual construction	(45,840,145)	(41,988,312)
Principal payments on debt	(55,373,340)	(9,520,340)
System capacity fees	9,332,685	9,325,252
Interest on debt	(8,845,323)	(8,286,516)
Net cash used in capital and related financing activities	(49,044,158)	(6,721,096)
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from the Belle River Project and other	810,787	2,623,538
Net cash provided by noncapital financing activities	810,787	2,623,538
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale and maturity of investments	30,540,705	11,058,659
Interest received	3,626,187	6,385,651
Purchase of investments	(14,014,419)	(54,674,332)
Net cash provided by (used in) investing activities	20,152,473	(37,230,022)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	862,810	(2,388,626)
<b>Cash and Cash Equivalents - Beginning of year</b>	77,827,028	80,215,654
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 78,689,838</b>	<b>\$ 77,827,028</b>

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

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2009	2008
<b>Balance Sheet Classifications</b>		
Restricted cash and cash equivalents	\$ 36,467,382	\$ 35,100,621
Cash and cash equivalents	42,222,456	42,726,407
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 78,689,838</b>	<b>\$ 77,827,028</b>

### Reconciliation of Operating Income to Net Cash from Operating Activities:

	Year Ended June 30	
	2009	2008
Operating income	\$ 1,981,829	\$ 19,858,461
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(10,293,071)	(10,747,503)
Depreciation	41,437,632	29,160,354
Sewerage collection fees	943,553	936,862
Interest on customer deposits	(55,286)	(154,288)
(Increase) decrease in assets:		
Accounts receivable (Note 1)	(363,323)	(58,573)
Unbilled accounts receivable (Note 1)	271,410	(1,459,502)
Inventories	(2,914,669)	(1,731,406)
Customer deposits	(769,279)	195,622
Other	3,039,556	(3,283,128)
Increase in liabilities:		
Accounts payable and other accrued expenses	(5,545,085)	5,444,827
Other and deferred costs	1,210,441	777,228
Total adjustments	26,961,879	19,080,493
Net cash provided by operating activities	<b>\$ 28,943,708</b>	<b>\$ 38,938,954</b>

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

## Pension Trust Funds - Statement of Net Assets

	June 30	
	2009	2008
<b>Assets</b>		
Receivable - Investment interest receivable	\$ 101,526	\$ 515,897
Investments at fair value:		
Money market collective trust fund	9,344,026	9,115,546
U.S. government obligations	15,587,768	10,637
Corporate bonds and notes	6,403,781	29,481,866
Mutual funds	128,133,715	244,317,858
Equities	70,883,824	3,594,029
Alternative Investments	557,589	-
Self-directed brokerage account	322,079	721,121
Participant loans	3,095,093	3,011,828
Total investments	<u>234,327,875</u>	<u>290,252,885</u>
<b>Net Assets</b>	<u>\$ 234,429,401</u>	<u>\$ 290,768,782</u>

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

## Pension Trust Funds - Statement of Changes in Net Assets

	Year Ended June 30	
	2009	2008
<b>Increases</b>		
Investment income (loss):		
Net (depreciation) appreciation in fair value of investments	\$ (63,366,108)	\$ (34,221,080)
Interest and dividend income	<u>7,054,051</u>	<u>10,912,020</u>
Net investment loss	(56,312,057)	(23,309,060)
Employer contributions	14,917,904	11,863,745
Participant rollover contributions	<u>372,035</u>	<u>319,828</u>
Total increases - Net of depreciation in fair value of investments	(41,022,118)	(11,125,487)
<b>Decreases</b>		
Benefits paid to participants	15,055,873	18,349,123
Loan defaults	255,936	393,395
Participants' loan fees	12,810	18,165
Retirees' health premiums and other	<u>(7,356)</u>	<u>1,731,524</u>
Total decreases	<u>15,317,263</u>	<u>20,492,207</u>
<b>Net Change in Assets Held</b>	(56,339,381)	(31,617,694)
<b>Assets Held in Trust for Pension Benefits</b>		
Beginning of year	<u>290,768,782</u>	<u>322,386,476</u>
End of year	<u><b>\$ 234,429,401</b></u>	<u><b>\$ 290,768,782</b></u>

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

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Notes to Financial Statements  
June 30, 2009 and 2008

## Note 1 - Significant Accounting Policies

**Reporting Entity** - The Board of Water and Light (the BWL), a related organization of the City of Lansing, Michigan (the "City"), is an administrative board established by the City Charter. The City Charter grants the BWL full and exclusive management of the water, steam, chilled water, and electric 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 water, steam, chilled water, and electric 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.

**Basis of Accounting** - The BWL utilizes the accrual basis of accounting. In addition, the BWL follows the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which requires that the effects of the ratemaking process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, the BWL records various regulatory assets and liabilities to reflect the regulator's actions (see Note 6). Management believes that the BWL meets the criteria for continued application of SFAS No. 71, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

On July 1, 1994, the BWL adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Under this statement, the BWL elected to follow all SFAS statements issued after November 30, 1989 that do not conflict with GASB statements.

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

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note I - Significant Accounting Policies (Continued)

**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** - The BWL has established special purpose funds designated to meet anticipated operating requirements. These funds consist principally of commercial paper and United States government securities and are segregated as follows:

	Carrying Value	
	2009	2008
Designated purpose:		
Coal inventory fluctuation	\$ 4,284,734	\$ 4,158,466
Litigation, environmental, and uninsured losses	16,719,158	17,837,835
Future water facilities	3,439,199	3,345,465
Total	<u>\$ 24,443,091</u>	<u>\$ 25,341,766</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 2009 and 2008 are as follows:

	2009	2008
Customer receivables	\$ 13,758,301	\$ 13,094,978
Sewerage collections	1,732,994	1,713,257
Combined sewer overflow - City of Lansing	1,979,053	255,149
MPPA receivable	8,448,231	10,129,574
Miscellaneous	7,175,258	1,028,948
Less allowance for doubtful accounts	<u>(1,200,000)</u>	<u>(900,000)</u>
Net	<u>\$ 31,893,837</u>	<u>\$ 25,321,906</u>

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note I - Significant Accounting Policies (Continued)

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

	<u>2009</u>	<u>2008</u>
Coal	\$ 13,585,620	\$ 10,413,212
Materials and supplies	<u>8,885,392</u>	<u>9,143,131</u>
Total	<u>\$ 22,471,012</u>	<u>\$ 19,556,343</u>

**Utility Plant** - The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred.

Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with SFAS No. 71. The resulting provisions for depreciation in 2009 and 2008, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant:	Life (Years)	<u>Average Rate (Percent)</u>	
		<u>2009</u>	<u>2008</u>
Water	4-100	1.9	2.0
Electric	4-50	3.2	3.3
Steam	5-50	26.8	1.8
Chilled water	5-50	5.4	4.8
Common facilities	4-50	4.4	4.5
Central Utilities Complex	15	6.6	6.2

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

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

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## Notes to Financial Statements June 30, 2009 and 2008

### Note I - Significant Accounting Policies (Continued)

**Accrued Compensated Absences** - The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$10,831,731 and \$10,536,588 as of June 30, 2009 and 2008, respectively.

**Capital Contributions** - Capital contributions represent nonrefundable amounts received from customers for construction of a utility plant. Electric, water, and steam contributions are credited against the related assets 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 SFAS No. 71.

**Net Assets** - Equity is classified as net assets and displayed in three components:

- **Invested in Capital Assets** (net of related debt) - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets
- **Restricted for Debt Service** - Consists of net assets with constraints placed on their use by revenue bond resolution
- **Unrestricted** - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt"

**Unbilled Accounts Receivable and Revenue** - Unbilled accounts receivable at June 30, 2009 and 2008 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to June 30 will be recognized in the current period.

**Interutility Transactions** - The water, electric, steam, and chilled water operations of the BWL bill each other for services provided, and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated \$4,854,942 and \$5,050,320 in 2009 and 2008, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

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

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## **Notes to Financial Statements June 30, 2009 and 2008**

### **Note 1 - Significant Accounting Policies (Continued)**

**Emissions Allowance** - The Environmental Protection Agency has granted emission allowances to the BWL related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The BWL estimates the allowances needed for future years. As appropriate, the BWL may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type are accounted for separately and are not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

The BWL recognized a gain of \$19,211 and \$2,757,249 as of June 30, 2009 and 2008, respectively, from the sale of allowances and has recorded an intangible asset of approximately \$1,681,365 and \$2,774,000 as of June 30, 2009 and 2008, respectively, for purchased allowances related to future periods.

**Significant Customers** - The BWL has one customer which accounts for approximately 7 percent and 8 percent of the BWL's total revenue for the years ended June 30, 2009 and 2008, respectively.

**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.

### **Note 2 - Rate Matters**

Rates charged to customers are established solely by the governing board. The BWL has agreed to charge 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 June 30, 2009 and 2008

### Note 3 - Construction in Progress

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete these projects, based on the BWL's capital budget, approximates \$25,552,000 and \$21,687,000 at June 30, 2009 and 2008, respectively, including commitments on existing construction contracts approximating \$4,681,000 and \$4,504,000 at June 30, 2009 and 2008, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets.

### Note 4 - Restricted Assets

Restricted assets are required under the 1994B, 1999A, 1999B, 2002A, 2002B, 2003A, 2005A, 2008A, and 2009A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, certificates of deposit, commercial paper, and United States government securities, are segregated into the following funds:

		Carrying Value	
	Required at June 30, 2009	2009	2008
Current:			
Operations and Maintenance Fund	\$ 21,611,000	\$ 63,788,236	\$ 62,792,269
Bond and Interest Redemption Fund	<u>14,856,382</u>	<u>14,901,602</u>	<u>15,034,759</u>
Total current	36,467,382	78,689,838	77,827,028
Noncurrent:			
2001A and 2008A Construction Fund	24,565,303	24,565,303	40,882,698
Bond Reserve Fund	12,894,941	13,429,621	12,661,586
Rebate Fund	<u>-</u>	<u>-</u>	<u>136,666</u>
Total noncurrent	<u>37,460,244</u>	<u>37,994,924</u>	<u>53,680,950</u>
Total	<u>\$ 73,927,626</u>	<u>\$ 116,684,762</u>	<u>\$ 131,507,978</u>

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

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## Notes to Financial Statements June 30, 2009 and 2008

### Note 4 - Restricted Assets (Continued)

The carrying value in excess of the required value is reported as cash and cash equivalents for the year ended June 30, 2009.

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 and the remaining capitalized interest on the 1994B, 1999A, 1999B, 2002A, 2002B, 2003A, 2005A, 2008A, and 2009A Revenue Bonds.
- **2001A and 2008A Construction Fund** - Restricted for payment of costs of the bonded projects and costs of issuance of the bonds.
- **Bond Reserve Fund** - Shall include sufficient funds to cover the maximum annual principal and interest requirements for the outstanding 1994B, 1999A, and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, and 2008A Revenue Bonds. The Nonarbitrage and Tax Compliance Certification stipulates that the amount in the fund shall be valued at amortized cost to meet this requirement.
- **Rebate Fund** - Shall include sufficient funds to enable the BWL to rebate arbitrage investment earnings to the federal government in accordance with Section 148(f)(2) of the Internal Revenue Code (IRC) of 1986, as amended (see Note 12).

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note 5 - Long-term Debt

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

	2009	2008
Water Supply, Steam, Chilled Water and Electric Utility System Revenue Bond, Series 2009A, due in annual principal installments beginning July 1, 2010 through July 1, 2016, plus interest at a rate of 5.34%	\$ 46,255,000	\$ -
Water Supply Utility System Revenue Bonds, Series 2008A, due serially through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%	40,000,000	40,000,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2005A, due serially beginning July 1, 2011 and continuing through July 1, 2014, plus interest at rates ranging from 4.00% to 5.00%	12,325,000	12,325,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2003A, due serially through July 1, 2026, plus interest at rates ranging from 2.75% to 5.00%	27,890,000	28,280,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2002A, due serially through July 1, 2018, plus interest at rates ranging from 3.50% to 5.00%	22,050,000	22,400,000
Water Supply, Steam and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.00% to 3.75%	11,095,000	13,065,000

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

## Notes to Financial Statements June 30, 2009 and 2008

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

	2009	2008
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999B, due serially through July 1, 2016, plus interest at rates ranging from 7.30% to 7.70%	\$ 5,045,000	\$ 55,109,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999A, due serially through July 1, 2011, plus interest at rates ranging from 5.00% to 5.50%	5,720,000	6,940,000
Water Supply and Electric Utility System Revenue Bonds, Series 1994B, due serially through July 1, 2008, plus interest at rates ranging from 4.60% to 5.00%	-	971,000
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at 2.50%	12,311,989	7,242,310
Promissory note, due in monthly installments of \$2,439.54 including interest at 4.85%, with final payment on December 31, 2013	1,219,240	168,567
Promissory note, due in monthly installments of \$15,833, including interest at 4.889%, with final payment in September 2008	-	65,077
Township contract water service obligation with interest due semiannually at 6% and portions of principal due annually, with final payment in May 2015	205,000	229,980

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

## Notes to Financial Statements June 30, 2009 and 2008

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

	<u>2009</u>	<u>2008</u>
Delta Township Drain Assessment due serially through January 15, 2025, plus interest at 5.25%	\$ 1,361,037	\$ 1,446,102
Total	185,477,266	188,242,036
Less current portion	(10,889,150)	(10,022,070)
Less current portion of premium deferred amount of refunding on bonds	(101,062)	(101,062)
Plus unamortized premium	1,341,421	1,539,701
Deferred loss on refunding of bonds	<u>(2,120,219)</u>	<u>(1,528,560)</u>
Total long-term portion	<u>\$ 173,708,256</u>	<u>\$ 178,130,045</u>

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be \$198,282,734 and \$199,503,603 at June 30, 2009 and 2008, respectively.

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 10,889,150	\$ 10,760,020	\$ 21,649,170
2011	13,010,245	7,866,587	20,876,832
2012	13,131,738	7,271,679	20,403,417
2013	13,726,143	6,642,876	20,369,019
2014	14,223,812	5,974,750	20,198,562
2015-2019	60,749,962	20,276,320	81,026,282
2020-2024	24,248,107	11,042,138	35,290,245
2025-2029	23,024,896	5,190,254	28,215,150
2030-2033	<u>12,473,213</u>	<u>1,248,860</u>	<u>13,722,073</u>
Total	<u>\$ 185,477,266</u>	<u>\$ 76,273,484</u>	<u>\$ 261,750,750</u>

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

## Notes to Financial Statements June 30, 2009 and 2008

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

Resolutions of the 1994B and 1999A bonds and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, and 2008A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2009, the balance of this reserve account was \$13,429,621 (see Note 4). The reserve requirements for the 1999B bonds and a portion of the 2002B bonds are satisfied by the purchase of a debt service reserve fund surety bond.

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL. Except for the Series 1999B Subordinate Lien Revenue Bonds and the Series 2009A Subordinate Lien Revenue Refunding Bond, all bonds were issued on a parity basis and are payable solely from the net revenue of combined water, electric, chilled water, and steam operations of the BWL.

During the fiscal year ended June 30, 2009 the BWL issued a \$46,255,000 Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bond Series 2009A with an interest rate of 5.34 percent; the proceeds were used to refund \$45,364,000 of Series 1999B Water Supply, Steam, and Electric Utility System Revenue Bonds with an average rate of 7.68 percent. The deferred loss on refunding is the difference between the reacquisition price of \$46,255,000 and the net carrying amount of the refunded bonds of \$45,364,000. The deferred amount of refunding of \$891,000 is being amortized using the effective-interest method over the life of the refunded bonds. The proceeds of the new bonds were placed in an escrow deposit fund to provide for early redemption of the refunded bonds maturing on or after July 1, 2010. There was an economic gain of \$2,798,926 to the BWL as a result of the refunding.

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

The BWL has defeased several bond issues in prior years. The proceeds of the new bonds were placed in an escrow deposit fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow deposit fund assets and the liability for the defeased bonds are not included in the financial statements. The outstanding balance of all defeased liabilities is \$75,714,000 and \$32,045,000 at June 30, 2009 and 2008, respectively.

The Series 2008A Bonds maturing in the years 2012 to 2028, inclusive, shall not be subject to optional redemption prior to maturity. The bonds, or portions of bonds in multiples of \$5,000 maturing in the years 2019 to 2032, inclusive, shall be subject to redemption at the option of the Board in such order of maturity as the Board 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.

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

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## **Notes to Financial Statements June 30, 2009 and 2008**

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

The BWL may redeem certain outstanding Water Supply and Electric Utility System Revenue Bonds prior to maturity. The Series 2005A Bonds maturing in the years 2011 to 2014, inclusive, shall not be subject to redemption prior to maturity.

The Series 2003A Bonds maturing in the years 2004 to 2013, inclusive, shall not be subject to redemption prior to maturity. Series 2003A Bonds due on or after July 1, 2014 to 2026, inclusive, shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2013, at par plus accrued interest to the date fixed for redemption.

The Series 2002A Bonds maturing in the years 2003 to 2012, inclusive, and the Series 2002B Bonds shall not be subject to redemption prior to maturity. Series 2002A Bonds due on or after July 1, 2013 shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2012, at par plus accrued interest to the date fixed for redemption.

The Series 1999B Bonds maturing in the years 2002 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999B Bonds due on or after July 1, 2010 shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption. In addition, there was a special optional redemption on January 1, 2003 for all series 1999B Bonds from unexpended series 1999B Bond proceeds on hand as of November 1, 2002, if any, at a price of 101 percent of their par value plus accrued interest, if any, to the date of redemption. During the year ended June 30, 2009, series 1999B Bonds in the amount of \$45,364,000 were defeased and this portion of the bond payable was removed for the BWL.

The Series 1999A Bonds maturing in the years 2001 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999A Bonds due on or after July 1, 2010 shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption.

The Series 1994B Bonds are noncallable.

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

## Notes to Financial Statements June 30, 2009 and 2008

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

The long-term debt activity for the year ended June 30, 2009 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 179,000,741	\$ 9,151,374	\$ 188,152,115
Additions	45,364,000	6,454,632	51,818,632
Reductions	(54,863,938)	(509,402)	(55,373,340)
Ending balance	<u>\$ 169,500,803</u>	<u>\$ 15,096,604</u>	<u>\$ 184,597,407</u>
Due within one year	\$ 9,906,653	\$ 982,497	\$ 10,889,150

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds is \$244,488,721. During the current year, net revenues of the BWL were \$55,274,649 compared to the annual debt requirements of \$17,804,755.

### Note 6 - Deferred Costs/Credits Recoverable in Future Years

#### Central Utilities Complex

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under SFAS No. 71. The BWL has recorded deferred amortization of \$4,788,533 and \$4,761,600 at June 30, 2009 and 2008, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC will be reimbursed through payments to be received from this customer through 2017. The deferred amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year-end.

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

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## Notes to Financial Statements June 30, 2009 and 2008

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

#### Environmental Remediation

During the year ended June 30, 2004, SFAS No. 71 was used in accounting for expenses to be incurred and the estimated liability for environmental remediation of a landfill site operated by the BWL. A regulatory asset of \$4,623,000 was created as a result. During the years ended June 30, 2009 and 2008, \$1,140,141 and \$1,155,600, respectively, was recovered in rates. An increase in the liability was made during the year ended June 30, 2009 of \$2,500,000. The remaining balance of the regulatory asset at June 30, 2009 and 2008 was \$8,671,659 and \$7,311,800, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

During the year ended June 30, 2006, an additional SFAS No. 71 amount was approved by the Board of Commissioners to defer an additional \$8,400,000 for the estimated liability of an environmental remediation for a second landfill. An increase in the liability was made during the year ended June 30, 2009 of \$2,100,000. The balance of the regulatory asset at June 30, 2009 and 2008 was \$10,500,000 and \$8,400,000, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. Recovery of this regulatory asset will begin when there is a defined landfill closure plan approved and in process, and will be included in subsequent rates.

#### Deferred Cost Adjustments

During the year ended June 30, 2005, the Board of Commissioners approved the use of SFAS No. 71 in accounting for the BWL's energy cost adjustment (ECA), power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electricity, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in deferred costs of \$(2,794,432) and \$(349,108) at June 30, 2009 and 2008, respectively. This amount represents costs to be (returned to) or recovered from customers in future years because actual costs of providing utilities were (lower) or higher than the costs incorporated into BWL's rates.

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

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## Notes to Financial Statements June 30, 2009 and 2008

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

#### **GM Steam Termination Fees and Related Impairment**

During the year ended June 30, 2006, the Board of Commissioners approved the use of SFAS No. 71 in accounting to defer certain General Motors Corporation (GM) termination fees and related steam asset impairment. During the year ended June 30, 2008, the BWL entered into a settlement agreement with GM on the fees that were billed due to the termination. The termination fees resulted in a receivable being recorded. The receivable balance is \$12,157,037 at June 30, 2009 and 2008. The balance of the deferred revenue was \$12,677,037 at June 30, 2008. As a consequence of GM issuing a termination notice and no longer taking steam service at several plants, the BWL has an impaired asset. This impaired asset resulted in a \$12,157,037 reduction to fixed assets. The BWL has decided to defer these fees and related asset impairment until they are included in the steam rates.

In June 2009 GM filed for Chapter 11 bankruptcy. As a component of this proceeding GM reorganized such that their profitable assets were assumed into a new corporate entity (New GM). As such, the New GM emerged from bankruptcy and continues to receive BWL services. However, the non profitable assets and other non-executory contracts remain to be dealt with by the bankruptcy court. The Steam Termination fees are still to be resolved by the bankruptcy court. The receivable is not due until September 2009 and no settlement amount has been discussed. The deferred revenue under FAS 71 has been reclassified and is now classified as an allowance for doubtful accounts to offset the receivable. The impaired asset was removed in June of 2009 as it was determined this amount would not be included in future steam rates.

### **Note 7 - Transactions with the City of Lansing, Michigan**

**Operations** - The BWL recognized revenue of \$9,541,677 and \$7,448,724 in 2009 and 2008, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$515,150 and \$519,155 in 2009 and 2008, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$945,137 and \$936,863 in 2009 and 2008, respectively, included in other income.

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

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## Notes to Financial Statements June 30, 2009 and 2008

### Note 7 - Transactions with the City of Lansing, Michigan (Continued)

**Payment in Lieu of Taxes** - Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002 and ending June 30, 2012, the formula to calculate the amount owed to the City for payment in lieu of taxes will also include revenue generated from the BWL's sales for resale on its water, chilled water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City \$10,293,071 in 2009 and \$10,747,503 in 2008 of operational cash flow in excess of debt service requirements.

### Note 8 - Retirement Plans

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

#### Defined Benefit Plan

The Defined Benefit Plan was established by the BWL in 1939 under Section 5-203 of the City Charter and has been revised several times, with the latest revision taking effect on November 19, 2002.

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 the Defined Benefit Plan were required to make an irrevocable choice to either remain in the Defined Benefit Plan or move to the newly established Defined Contribution Plan. Those participants who elected to move to the Defined Contribution Plan received lump-sum distributions from the Defined Benefit Plan, which were rolled into their accounts in the new Defined Contribution Plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established Defined Contribution Plan.

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

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## Notes to Financial Statements June 30, 2009 and 2008

### Note 8 - Retirement Plans (Continued)

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

A participant's interest is fully vested when the participant has been credited with seven years of vesting service. The Defined Benefit Plan provides for an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.8 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

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. Medical benefits paid by the Defined Benefit Plan totaled \$0 and \$1,661,708 for the years ended June 30, 2009 and 2008, respectively.

**Basis of Accounting** - The Defined Benefit Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Benefits are recognized when due and payable in accordance with the terms of the Defined Benefit Plan.

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

**Funding Policy and Annual Pension Cost** - The BWL's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the years ended June 30, 2009, 2008, and 2007 were determined using an attained age projected unit credit actuarial funding method. No transition adjustments were required upon implementation of Governmental Accounting Standards Board No. 27, *Accounting for Pensions by State and Local Government Employers*. Overfunded actuarial accrued liabilities were amortized as a level dollar reduction of contributions over a period of 15 years in 2009, 2008, and 2007.

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note 8 - Retirement Plans (Continued)

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

The annual pension cost was determined as part of an actuarial valuation of the Defined Benefit Plan as of February 28, 2009, 2008, and 2007. Significant actuarial assumptions used in determining the annual pension cost include (a) rate of return on the investment of present and future assets of 7.5 percent in 2009, 2008, and 2007, compounded annually, (b) projected salary increases ranging from 5.0 to 11.0 percent in 2009, 2008, and 2007, compounded annually, depending on age, attributable to inflation, and (c) the assumption that benefits will not increase after retirement.

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

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

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

	2007	2008	2009
Annual pension cost	\$ -	\$ -	\$ -
Percentage of APC contributed	-	-	-
Net pension obligation	-	-	-

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note 8 - Retirement Plans (Continued)

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

	2009	2008	2007
Normal cost	\$ 420,077	\$ 457,679	\$ 558,372
Amortization of the overfunded actuarial accrued liability	(3,324,485)	(4,513,575)	(4,080,878)

Based on the overfunded status of the Defined Benefit Plan through June 30, 2008, no employer contributions were required for the year ended June 30, 2009.

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

#### Schedule of Funding Progress (Unaudited - Required Information)

(Dollar amounts in thousands)

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 28, 2007	\$ 126,212	\$ 83,382	\$ (42,830)	151	\$ 3,391	(1,263.0)
February 28, 2008	113,970	82,423	(31,547)	138	3,162	(997.7)
February 28, 2009	64,844	79,558	14,714	82	3,089	476.3

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

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Notes to Financial Statements  
June 30, 2009 and 2008

## Note 8 - Retirement Plans (Continued)

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

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

### Defined Contribution Plan

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

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

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

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees.

During the years ended June 30, 2009 and 2008, the BWL contributed \$5,383,530 and \$5,128,206, 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. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

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

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## Notes to Financial Statements June 30, 2009 and 2008

### 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**

The Retiree Benefit Plan and Trust (the "Plan") is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 683 participants eligible to receive benefits at June 30, 2009 and 686 participants eligible at June 30, 2008.

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, 2009 and 2008, the BWL contributed \$9,534,372 and \$6,735,539, respectively, to the VEBA trust. For the year ended June 30, 2009, the total cost of providing such benefits was \$8,332,057, the plan was fully funded by the BWL. For the year ended June 30, 2008, the total cost of providing such benefits was \$8,226,252, of which \$1,661,708 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by the BWL.

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

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

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Notes to Financial Statements  
June 30, 2009 and 2008

## Note 8 - Retirement Plans (Continued)

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

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

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

The board's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years.

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

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

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note 8 - Retirement Plans (Continued)

The plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used are approximately 6.26 percent and 6.98 percent for the years ended June 30, 2009 and 2008, respectively.

Contribution trend information is as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2007	\$ 17,867	\$ 18,090	101%	\$ (223)
6/30/2008	14,797	14,797	100%	(164)
6/30/2009	18,132	17,745	98%	387

**Funded Status and Funding Progress** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected salary increases ranging from 5.0 percent to 11.0 percent, depending on age, and (c) amortization method level dollar over a 30-year period.

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

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/28/2007	\$ 52,335	\$ 198,005	\$ 145,670	26.43%	\$42,825	340.2
2/28/2008	57,246	236,102	178,856	24.25%	44,660	400.5
2/28/2009	45,320	256,888	211,568	17.64%	48,784	433.7

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

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## Notes to Financial Statements June 30, 2009 and 2008

### Note 8 - Retirement Plans (Continued)

#### Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, which is administered by a trustee, the ICMA Retirement Corporation. The BWL makes contributions of \$1,000 annually for the employees as of January 1 of each year, during the month of January. The BWL also will match employee contributions after employees contribute \$1,000 at a rate of 75 percent until they reach the maximum of an additional \$500 in contributions.

### Note 9 - Commitments and Contingencies

At June 30, 2009 and 2008, the BWL has unused letters of credit in the amounts of \$1,000,000 and \$817,220, respectively, 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 is currently in the process of applying for approval from the State of Michigan to remediate the sites. The BWL has estimated the total cost for remediation of the landfills and has recorded the liability of \$11,782,746 and \$14,652,740 for the years ended June 30, 2009 and 2008, respectively. In accordance with SFAS No. 71 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6). Certain remediation activities have commenced and are in progress.

The BWL previously announced a program to upgrade existing lead pipes throughout the BWL service area. The program is scheduled to be complete in six years at an estimated remaining cost of \$23,800,000.

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.

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

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## **Notes to Financial Statements June 30, 2009 and 2008**

### **Note 9 - Commitments and Contingencies (Continued)**

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, 2009 and 2008 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling approximately \$9,800,000 through December 31, 2009. 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 \$23,429,000 through December 2010.

The BWL has entered into agreements for other operating activities totaling \$1,219,240 through December 31, 2013.

During the year ended June 30, 2008, the BWL has entered into an agreement with the City of Lansing and Christman Capital Development Company (CCDC) to relocate the chilled water facilities and steam facilities from the site of the BWL's decommissioned Ottawa Plant located on the Grand River. The total costs to relocate the chilled water facilities and steam facilities will be reimbursed to the BWL not to exceed \$20 million dollars. The agreement also allows for the City, through the BWL, to sell the Ottawa Plant and the property to CCDC. The construction of the new facilities is on schedule and expected to be completed by September 30, 2009 as required under the terms of the agreement. The remaining amount to be reimbursed is \$4 million. During the year ended June 30, 2009, \$16 million was reimbursed to the BWL from CCDC and was recognized in other income with an offsetting loss of \$13 million for the existing assets.

### **Note 10 - Power Supply Purchase**

In 1983, the BWL entered into 35-year power supply and project support contracts with the Michigan Public Power Agency (MPPA), of which the BWL is a member. Under the agreement, the BWL has the ability to purchase power from MPPA, will sell power to MPPA at an agreed-upon rate, and will purchase 64.29 percent of the energy generated by MPPA's 37.22 percent ownership in Detroit Edison's Belle River Unit #1 (Belle River), which became operational in August 1984.

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

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

## Notes to Financial Statements June 30, 2009 and 2008

### Note 10 - Power Supply Purchase (Continued)

Year	Estimated		Total Required
	Debt Service	Fixed Operating	
2010	\$ 17,677,701	\$ 9,495,761	\$ 27,173,462
2011	17,675,483	9,770,400	27,445,883
2012	17,677,532	10,053,279	27,730,811
2013	17,675,780	10,344,645	28,020,425
2014	17,674,968	10,644,751	28,319,719
2015-2016	<u>35,353,826</u>	<u>22,217,858</u>	<u>57,571,684</u>
Total	<u>\$ 123,735,290</u>	<u>\$ 72,526,694</u>	<u>\$ 196,261,984</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 2009 and 2008 of \$43,490,432 and \$41,086,762, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

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

During the year ended June 30, 2005, the BWL submitted a five-year termination notice of its participation in the MPPA Power Pool Project, terminating, as of December 31, 2010, the BWL's contractual obligation to buy and sell power within the Pool. The termination notice does not extinguish the BWL's membership in MPPA and causes no change in BWL's contractual obligations to MPPA related to Belle River.

The BWL has entered into agreements with Granger Electric Company to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028. The minimum power to be purchased in the contract is 3.2 megawatts with the option to purchase up to 12 megawatts depending on capacity. The price of the electricity is based on the BWL's cost of electricity generation. The total amount of electricity expected to be purchased from these contracts are estimated at \$120,000,000.

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

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## Notes to Financial Statements June 30, 2009 and 2008

### Note 11 - Cash, Investments, and Fair Value Disclosure

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

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

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

#### **Risks at June 30, 2009**

**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. As a result of increases in FDIC insurance coverage on non-interest bearing accounts, all bank deposits are insured as of June 30, 2009. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

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

## Notes to Financial Statements June 30, 2009 and 2008

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

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$ 58,222,604	Counterparty

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments other than U.S. Treasuries to a maximum maturity of three years. At year end, the average maturities of investments are as follows:

	Fair Value	Less than		
		1 Year	1-5 Years	6-10 Years
Pooled investment funds (if not 2a-7)	\$ 54,078,752	\$ 54,078,752	\$ -	\$ -
U.S. government or agency bond or note	59,703,987	25,353,062	28,120,411	6,230,514
Commercial paper	17,015,015	17,015,015	-	-

#### Interest Rate Risk - Pension Trust Funds:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 15,587,768	6.93
Money Market Trust Funds	4,323,715	Less than 1 year
Corporate bonds	6,403,781	14.47

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The BWL investment policy further limits its investment in commercial paper to prime quality by both Standard and Poor's and Moody's (A1/P1). As of year-end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

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

## Notes to Financial Statements June 30, 2009 and 2008

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

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 54,078,752	AAA	S&P
	8,652,878	Not rated	Not rated
Commercial paper	8,132,761	A1+	S&P
	8,880,402	A1	S&P

**Concentration of Credit Risk** - The BWL's investment policy allows no more than 30 percent of the total portfolio to be invested in obligations of any particular issuer except the U.S. Treasury. As of year-end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

#### Credit Risk - Pension Trust Funds:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 98,639,919	Not Rated	Not Rated
Government or agency bond	9,105,225	Not Rated	Not Rated
Corporate bonds	784,849	Not Rated	Not Rated
Corporate bonds	1,577,622	AAA	S&P
Corporate bonds	375,481	AA+	S&P
Corporate bonds	646,991	A+	S&P
Corporate bonds	1,036,678	A	S&P
Corporate bonds	111,597	A-	S&P
Corporate bonds	676,305	BBB	S&P
Corporate bonds	181,653	BBB-	S&P
Corporate bonds	108,350	BB+	S&P
Corporate bonds	118,558	B+	S&P
Corporate bonds	401,656	B	S&P
Corporate bonds	64,095	CCC	S&P
Commercial paper	319,946	AA	S&P

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

## Notes to Financial Statements June 30, 2009 and 2008

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

**Foreign Currency Risk** - The BWL policy requires that all investments be in U.S. dollars. The BWL holds no investments in foreign entities, currency, or debt.

#### Risks at June 30, 2008

**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, 2008, the BWL had \$2,412,696 of bank deposits that were uninsured and uncollateralized. The BWL believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 51,435,705	Counterparty

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments other than U.S. Treasuries to a maximum maturity of three years. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1		
		year	1-5 years	6-10 years
Pooled investment funds (if not 2a-7)	\$ 61,885,916	\$ 61,885,916	\$ -	\$ -
U.S. government or agency bond or note	52,276,487	15,627,163	29,951,732	6,697,592
Commercial paper	35,271,027	35,271,027	-	-

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

## Notes to Financial Statements June 30, 2009 and 2008

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

#### Interest Rate Risk - Pension Trust Funds:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 10,637	13.17
Mutual funds	23,161,954	3.93
Corporate bonds	29,481,866	14.79

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The BWL investment policy further limits its investment in commercial paper to prime quality by both Standard and Poor's and Moody's (A1/P1). As of year-end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$61,885,916	AAA	S&P
	4,583,018	Not rated	Not rated
Commercial paper	23,956,410	A1+	S&P
	11,314,617	A1	S&P

#### Credit Risk - Pension Trust Funds:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$140,991,324	Not Rated	Not Rated
Corporate bonds	1,313,200	AAA	S&P
Corporate bonds	546,445	AA	S&P
Corporate bonds	2,767,430	AA-	S&P
Corporate bonds	6,892,689	A+	S&P
Corporate bonds	8,980,785	A	S&P
Corporate bonds	2,789,575	A-	S&P
Corporate bonds	1,633,291	BBB+	S&P
Corporate bonds	1,011,571	BBB	S&P
Corporate bonds	2,628,130	BBB-	S&P
Corporate bonds	918,750	BB	S&P

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

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## **Notes to Financial Statements June 30, 2009 and 2008**

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

**Concentration of Credit Risk** - The BWL's investment policy allows no more than 30 percent of the total portfolio to be invested in obligations of any particular issuer except the U.S. Treasury. As of year-end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

**Foreign Currency Risk** - The BWL policy requires that all investments be in U.S. dollars. The BWL holds no investments in foreign entities, currency, or debt.

### **Note 12 - Estimated Liability for Excess Earning 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 1994B, Series 1999A, Series 2002A and B, 2003A, 2005A, and 2008A 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 and \$136,666 at June 30, 2009 and 2008, respectively. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

### **Note 13 - Risk Management and Insurance**

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

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

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**Notes to Financial Statements  
June 30, 2009 and 2008**

## **Note 14 - Subsequent Event**

In August 2009 the BWL received an information request from the Environmental Protection Agency (EPA) pursuant to section 114(a) of the Clean Air Act, 42 USC 7414(a), which requests that BWL compile information or provide copies of documents specifically identified by the EPA. The EPA has not cited BWL for any violations of the law in connection with this request for information. At this time, no claims exist concerning the information request and any potential financial loss from claims related to the information request would be speculative. Management will continue to evaluate whether BWL has any potential financial loss associated with this information request and any follow-up by the EPA.

## **Additional Information**

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

## Income Available for Revenue Bond Debt Retirement

	Year Ended June 30	
	2009	2008
<b>Income</b> - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 4,606,976	\$ 13,742,960
<b>Additional Income</b>		
Depreciation and impairment	41,437,632	29,160,354
Interest on long-term debt:		
Notes	55,286	154,288
Revenue bonds	<u>9,174,755</u>	<u>8,401,608</u>
Total additional income	<u>50,667,673</u>	<u>37,716,250</u>
<b>Income Available for Revenue Bonds and Interest Redemption</b>	<b><u>\$ 55,274,649</u></b>	<b><u>\$ 51,459,210</u></b>
<b>Debt Retirement Pertaining to Revenue Bonds</b>		
Principal	\$ 8,630,000	\$ 9,095,000
Interest	<u>9,174,755</u>	<u>8,401,608</u>
Total	<b><u>\$ 17,804,755</u></b>	<b><u>\$ 17,496,608</u></b>
<b>Percent Coverage of Revenue Bonds and Interest Requirements</b>	<b><u>310</u></b>	<b><u>294</u></b>

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

	Combined		Eliminations	
	2009	2008	2009	2008
<b>Operating Revenues</b>				
Water	\$ 27,215,900	\$ 26,730,394	\$ -	\$ -
Electric:				
Retail	174,970,929	172,103,128	(129,238)	(516,952)
Sales for resale	45,229,387	63,476,738	-	-
Steam	9,640,959	8,696,792	-	-
Chilled water	4,670,157	4,720,885	-	-
<b>Total operating revenues</b>	<b>261,727,332</b>	<b>275,727,937</b>	<b>(129,238)</b>	<b>(516,952)</b>
<b>Operating Expenses</b>				
Production:				
Fuel, purchased power, and other operating expenses	134,605,416	139,215,552	(129,238)	(516,952)
Maintenance	19,449,795	22,969,955	-	-
Transmission and distribution:				
Operating expenses	6,970,410	7,896,861	-	-
Maintenance	7,188,826	8,422,127	-	-
Administrative and general	50,093,424	48,204,627	-	-
Depreciation and impairment	41,437,632	29,160,354	-	-
<b>Total operating expenses</b>	<b>259,745,503</b>	<b>255,869,476</b>	<b>(129,238)</b>	<b>(516,952)</b>
<b>Operating Income (Loss)</b>	<b>1,981,829</b>	<b>19,858,461</b>	<b>-</b>	<b>-</b>
<b>Nonoperating Income (Expenses)</b>				
Investment income	3,567,772	6,160,524	(3,435)	(28,194)
Other income	14,292,802	2,402,122	-	-
System capacity fees	9,332,685	9,325,252	-	-
Bonded debt interest expense	(9,174,755)	(8,401,608)	-	-
Amortization - Central Utilities Complex	(5,045,000)	(4,700,000)	-	-
Payment in lieu of taxes	(10,293,071)	(10,747,503)	-	-
Other interest expense	(55,286)	(154,288)	3,435	28,194
<b>Total nonoperating income (expenses)</b>	<b>2,625,147</b>	<b>(6,115,501)</b>	<b>-</b>	<b>-</b>
<b>Income (Loss)</b>	<b>\$ 4,606,976</b>	<b>\$ 13,742,960</b>	<b>\$ -</b>	<b>\$ -</b>

**Detail of Statement of Revenues and Expenses  
Years Ended June 30, 2009 and 2008**

Water		Electric		Steam		Chilled Water	
2009	2008	2009	2008	2009	2008	2009	2008
\$ 27,215,900	\$ 26,730,394	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	175,100,167	172,620,080	-	-	-	-
-	-	45,229,387	63,476,738	-	-	-	-
-	-	-	-	9,640,959	8,696,792	-	-
-	-	-	-	-	-	4,670,157	4,720,885
<u>27,215,900</u>	<u>26,730,394</u>	<u>220,329,554</u>	<u>236,096,818</u>	<u>9,640,959</u>	<u>8,696,792</u>	<u>4,670,157</u>	<u>4,720,885</u>
7,110,157	7,069,029	120,440,174	125,691,762	5,437,139	5,360,474	1,747,184	1,611,239
2,475,197	2,754,810	15,439,191	18,278,542	1,394,125	1,469,964	141,282	466,639
1,669,762	1,452,410	5,104,605	6,256,463	196,043	187,988	-	-
1,912,295	2,009,768	4,834,730	5,947,609	437,967	457,171	3,834	7,579
8,657,683	8,475,209	39,011,206	37,519,602	2,178,492	1,890,534	246,043	319,282
<u>5,195,349</u>	<u>4,935,125</u>	<u>21,063,493</u>	<u>21,230,552</u>	<u>13,272,911</u>	<u>1,092,190</u>	<u>1,905,879</u>	<u>1,902,487</u>
<u>27,020,443</u>	<u>26,696,351</u>	<u>205,893,399</u>	<u>214,924,530</u>	<u>22,916,677</u>	<u>10,458,321</u>	<u>4,044,222</u>	<u>4,307,226</u>
195,457	34,043	14,436,155	21,172,288	(13,275,718)	(1,761,529)	625,935	413,659
1,418,888	1,379,022	1,745,313	3,740,201	208,884	556,124	198,122	513,371
1,065,165	549,293	9,526,306	2,122,763	(227,398)	(260,318)	3,928,729	(9,616)
817,543	816,892	7,803,991	7,797,776	711,151	710,584	-	-
(2,819,640)	(1,323,920)	(4,303,392)	(4,978,813)	(285,730)	(318,230)	(1,765,993)	(1,780,645)
(441,942)	(411,720)	(4,218,629)	(3,930,140)	(384,429)	(358,140)	-	-
(1,075,280)	(1,041,692)	(8,696,920)	(9,088,265)	(334,266)	(426,368)	(186,605)	(191,178)
<u>(12,343)</u>	<u>(39,297)</u>	<u>(42,865)</u>	<u>(114,816)</u>	<u>(3,513)</u>	<u>(28,369)</u>	<u>-</u>	<u>-</u>
<u>(1,047,609)</u>	<u>(71,422)</u>	<u>1,813,804</u>	<u>(4,451,294)</u>	<u>(315,301)</u>	<u>(124,717)</u>	<u>2,174,253</u>	<u>(1,468,068)</u>
<b><u>\$ (852,152)</u></b>	<b><u>\$ (37,379)</u></b>	<b><u>\$ 16,249,959</u></b>	<b><u>\$ 16,720,994</u></b>	<b><u>\$ (13,591,019)</u></b>	<b><u>\$ (1,886,246)</u></b>	<b><u>\$ 2,800,188</u></b>	<b><u>\$ (1,054,409)</u></b>

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

## Detail of Statement of Changes in Net Assets

	<u>Combined</u>	<u>Water</u>	<u>Electric</u>	<u>Steam</u>	<u>Chilled Water</u>
<b>Net Assets</b> - June 30, 2007	\$ 505,949,011	\$ 94,963,614	\$ 398,012,366	\$ 14,938,511	\$ (1,965,480)
Income (loss) before contributions	<u>13,742,960</u>	<u>(37,379)</u>	<u>16,720,994</u>	<u>(1,886,246)</u>	<u>(1,054,409)</u>
<b>Net Assets</b> - July 1, 2008	519,691,971	94,926,235	414,733,360	13,052,265	(3,019,889)
Income (loss) before contributions	<u>4,606,976</u>	<u>(852,152)</u>	<u>16,249,959</u>	<u>(13,591,019)</u>	<u>2,800,188</u>
<b>Net Assets</b> - June 30, 2009	<u><b>\$ 524,298,947</b></u>	<u><b>\$ 94,074,083</b></u>	<u><b>\$ 430,983,319</b></u>	<u><b>\$ (538,754)</b></u>	<u><b>\$ (219,701)</b></u>

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

## Pension Trust Funds - Detail of Statement of Net Assets

June 30, 2009				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Assets</b>				
Receivable - Investment interest receivable \$	-	\$ 56,903	\$ 44,623	\$ 101,526
Investments at fair value:				
Money market collective trust fund	-	1,495,538	7,848,488	9,344,026
U.S. government obligations	-	9,105,225	6,482,543	15,587,768
Corporate bonds and notes	-	3,742,188	2,661,593	6,403,781
Mutual funds	98,639,916	15,816,133	13,677,666	128,133,715
Equities	-	41,987,004	28,896,820	70,883,824
Alternative investments	-	330,494	227,095	557,589
Self-directed brokerage account	322,079	-	-	322,079
Participant loans	3,095,093	-	-	3,095,093
Total investments	<u>102,057,088</u>	<u>72,476,582</u>	<u>59,794,205</u>	<u>234,327,875</u>
<b>Net Assets</b>	<b><u>\$ 102,057,088</u></b>	<b><u>\$ 72,533,485</u></b>	<b><u>\$ 59,838,828</u></b>	<b><u>\$ 234,429,401</u></b>

June 30, 2008				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Assets</b>				
Receivable - Investment interest receivable \$	-	\$ 398,932	\$ 116,965	\$ 515,897
Investments at fair value:				
Money market collective trust fund	-	1,045,199	8,070,347	9,115,546
U.S. government obligations	-	10,637	-	10,637
Corporate bonds and notes	-	20,599,915	8,881,951	29,481,866
Mutual funds	117,829,370	84,722,671	41,765,817	244,317,858
Equities	-	541,649	3,052,380	3,594,029
Alternative investments	-	-	-	-
Self-directed brokerage account	721,121	-	-	721,121
Participant loans	3,011,828	-	-	3,011,828
Total investments	<u>121,562,319</u>	<u>106,920,071</u>	<u>61,770,495</u>	<u>290,252,885</u>
<b>Net Assets</b>	<b><u>\$ 121,562,319</u></b>	<b><u>\$ 107,319,003</u></b>	<b><u>\$ 61,887,460</u></b>	<b><u>\$ 290,768,782</u></b>

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

## Pension Trust Funds - Detail of Statement of Changes in Net Assets Year Ended June 30, 2009

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
Investment income (loss):				
Net depreciation in fair value of investments	\$ (20,091,805)	\$ (29,512,614)	\$ (13,761,689)	\$ (63,366,108)
Interest and dividend income	<u>2,104,314</u>	<u>2,771,052</u>	<u>2,178,685</u>	<u>7,054,051</u>
Net investment loss	(17,987,491)	(26,741,562)	(11,583,004)	(56,312,057)
Employer contributions	5,383,532	-	9,534,372	14,917,904
Participant rollover contributions	<u>372,035</u>	<u>-</u>	<u>-</u>	<u>372,035</u>
Total increases - Net of depreciation in fair value of investments	(12,231,924)	(26,741,562)	(2,048,632)	(41,022,118)
<b>Decreases</b>				
Benefits paid to participants	7,011,917	8,043,956	-	15,055,873
Loan defaults	255,936	-	-	255,936
Participants' loan fees	12,810	-	-	12,810
Retirees' health premiums and other	<u>(7,356)</u>	<u>-</u>	<u>-</u>	<u>(7,356)</u>
Total decreases	<u>7,273,307</u>	<u>8,043,956</u>	<u>-</u>	<u>15,317,263</u>
<b>Net Change in Assets Held</b>	(19,505,231)	(34,785,518)	(2,048,632)	(56,339,381)
<b>Assets Held in Trust for Pension Benefits</b>				
Beginning of year	<u>121,562,319</u>	<u>107,319,003</u>	<u>61,887,460</u>	<u>290,768,782</u>
End of year	<u><b>\$ 102,057,088</b></u>	<u><b>\$ 72,533,485</b></u>	<u><b>\$ 59,838,828</b></u>	<u><b>\$ 234,429,401</b></u>

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

## Pension Trust Funds - Detail of Statement of Changes in Net Assets (Continued) Year Ended June 30, 2008

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
Investment income:				
Net appreciation in fair value of investments	\$ (11,764,286)	\$ (14,570,920)	\$ (7,885,874)	\$ (34,221,080)
Interest and dividend income	<u>2,010,014</u>	<u>6,931,264</u>	<u>1,970,742</u>	<u>10,912,020</u>
Total investment income	(9,754,272)	(7,639,656)	(5,915,132)	(23,309,060)
Employer contributions	5,128,206	-	6,735,539	11,863,745
Participant rollover contributions	<u>319,828</u>	<u>-</u>	<u>-</u>	<u>319,828</u>
Total increases - Net of depreciation in fair value of investments	(4,306,238)	(7,639,656)	820,407	(11,125,487)
<b>Decreases</b>				
Benefits paid to participants	9,813,167	8,535,956	-	18,349,123
Loan defaults	393,395	-	-	393,395
Participants' loan fees	18,165	-	-	18,165
Retirees' health premiums and other	<u>69,816</u>	<u>1,661,708</u>	<u>-</u>	<u>1,731,524</u>
Total decreases	<u>10,294,543</u>	<u>10,197,664</u>	<u>-</u>	<u>20,492,207</u>
<b>Net Change in Assets Held</b>	(14,600,781)	(17,837,320)	820,407	(31,617,694)
<b>Assets Held in Trust for Pension Benefits</b>				
Beginning of year	<u>136,163,100</u>	<u>125,156,323</u>	<u>61,067,053</u>	<u>322,386,476</u>
End of year	<u>\$ 121,562,319</u>	<u>\$ 107,319,003</u>	<u>\$ 61,887,460</u>	<u>\$ 290,768,782</u>