



Board of Water and Light - City of Lansing, Michigan

**Financial Report
with Additional Information
June 30, 2011**

Board of Water and Light - City of Lansing, Michigan

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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, 2011 and 2010, 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. Our audit of the year ended June 30, 2010 was also performed in accordance with 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, 2011 and 2010 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 2 through 5 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 an opinion on the financial statements that collectively comprise the BWL's basic financial statements. The additional information on pages 49 through 56 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.

Plante & Moran, PLLC

September 6, 2011

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 electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2011.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 95,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 66 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its participation in the MISO markets, 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 over 190 customers, and a chilled water facility and distribution piping system serving 16 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt service back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were \$41.4 and \$39.4 million in fiscal years 2011 and 2010, 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. In June 2011, however, the BWL began construction on a new combined-cycle cogeneration plant which will be funded from the proceeds of revenue bonds. The new plant, which will serve steam and electric customers, is expected to be placed in service during the 2013 calendar year.

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 49.

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Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions)

	June 30			% Change
	2011	2010	2009	2010 to 2011
Assets				
Utility plant	\$ 534.3	\$ 532.4	\$ 531.3	0.4
Other assets	489.9	227.3	232.0	115.5
Total assets	1,024.2	759.7	763.3	34.8
Liabilities				
Long-term liabilities	439.4	189.6	197.5	131.8
Other liabilities	48.0	40.8	41.5	17.6
Total liabilities	487.4	230.4	239.0	111.5
Net Assets				
Invested in capital assets	373.7	386.9	371.3	(3.4)
Restricted for debt service	37.2	38.6	39.0	(3.6)
Unrestricted	125.9	103.8	114.0	21.3
Total net assets	<u>\$ 536.8</u>	<u>\$ 529.3</u>	<u>\$ 524.3</u>	1.4

Other assets increased by \$262.6 million. The large increase is primarily attributable to the \$255.7 million in revenue bond proceeds received for construction of the combined-cycle cogeneration plant.

Long-term liabilities increased by \$249.8 million. This large increase is also related to the revenue bond issuance for the new plant. Other liabilities increased by \$7.2 million due to modest increases in accounts payable and current portions of long-term debt.

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 2010 to 2011
	2011	2010	2009	
Results of Operations				
Operating revenue	\$ 306.1	\$ 273.9	\$ 261.7	11.8
Operating expenses	282.7	260.3	259.7	8.6
Nonoperating (expense) income - Net	(15.8)	(8.7)	2.6	81.6
Change in Net Assets	<u>\$ 7.6</u>	<u>\$ 4.9</u>	<u>\$ 4.6</u>	55.1

Operating revenues increased \$32.2 million, due primarily to a \$27.9 million increase in electric revenues. The electric revenue increase was due to rate increases, including the implementation of the renewable energy and energy optimization surcharges, and increases in energy costs.

Operating expenses increased \$22.4 million and was driven by fuel and production maintenance costs which each increased by approximately \$10 million.

Nonoperating income (expense) decreased by \$7.1 million, due primarily to the net effect of investment income decreasing by \$1.6 million and other income decreasing by \$4.4 million. The decrease in other income is mostly comprised of a \$3.2 million decrease in MPPA payments from the Belle River Project and \$0.5 million reduction in sales of emissions allowances.

Budget - The BWL commissioners approved a \$261.3 million operating expense budget (excluding depreciation) for fiscal year 2011. Actual expenses (excluding depreciation) were \$252.5 million or 3.4 percent less than budget. The savings were mainly due to continued efforts of a BWL wide initiative launched in the fall of 2009 to cut costs. The net capital improvement budget was \$44.8 million for fiscal year 2011; actual net capital expenditures, excluding costs associated with the new combined-cycle cogeneration plant, were \$30.2 million or 67 percent of the capital budget.

Financing Activities - During fiscal year 2011, the BWL issued \$250 million in tax-exempt Revenue Bonds primarily to fund the costs of constructing its new combined-cycle cogeneration plant but also to fund the costs of additional improvements to its existing infrastructure. The bond issuance received very favorable ratings of AA- from Standard and Poor's and Aa3 from Moody's.

Board of Water and Light - City of Lansing, Michigan

Management's Discussion and Analysis (Continued)

Other Significant Items - In July 2011 an accident occurred at the Wise Road Water Conditioning Plant resulting in extensive damages to the plant. Evaluations to determine the extent of repairs are still being completed although it is expected that insurance will pay the costs less the deductible. The plant continues to produce clean, treated water to the community as repairs are being completed.

Board of Water and Light - City of Lansing, Michigan

Statement of Net Assets

	June 30	
	2011	2010
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 37,681,413	\$ 38,547,547
Cash and cash equivalents (Notes 4 and 11)	47,234,603	42,829,458
Investments (Notes 1 and 11)	43,490,345	25,078,325
Accounts receivable - Net (Note 1)	24,081,889	31,394,564
Estimated unbilled accounts receivable (Note 1)	15,504,354	13,501,303
Inventories (Note 1)	23,892,975	21,330,723
Other	1,327,067	1,587,166
Total current assets	193,212,646	174,269,086
Other Assets		
Deferred energy cost (Note 6)	1,184,086	(5,217,753)
Deferred amortization of Central Utilities Complex (Note 6)	2,291,971	3,934,097
Deferred environmental remediation (Note 6)	27,524,910	21,715,072
Special deposit	3,625,000	-
Other	(64,160)	952,126
Total other assets	34,561,807	21,383,542
Noncurrent Restricted Assets (Notes 4 and 11)	262,208,908	31,589,605
Utility Plant (Note 1)		
Water	252,234,053	245,140,560
Electric	642,246,270	620,083,406
Steam	44,881,456	44,052,072
Chilled water	32,733,046	32,654,117
Common facilities	65,345,416	64,941,333
Central Utilities Complex	76,079,000	76,079,000
Total	1,113,519,241	1,082,950,488
Less accumulated depreciation	592,317,195	562,820,851
Net	521,202,046	520,129,637
Construction in progress (Note 3)	13,062,074	12,284,075
Total utility plant	534,264,120	532,413,712
Total assets	\$ 1,024,247,481	\$ 759,655,945

Board of Water and Light - City of Lansing, Michigan

Statement of Net Assets (Continued)

	June 30	
	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 19,758,271	\$ 15,725,701
Current portion of long-term debt (Note 5)	15,411,114	12,472,372
Accrued payroll and related taxes	2,660,755	2,824,053
Customer deposits	2,122,536	2,219,809
Accrued compensated absences (Note 1)	3,860,961	3,661,189
Accrued interest	4,221,905	3,930,344
Total current liabilities	48,035,542	40,833,468
Compensated Absences - Less current portion (Note 1)	7,591,266	7,244,259
Other Long-term Liabilities		
Workers' compensation	2,300,000	2,300,000
Environmental remediation liability (Note 9)	15,867,899	9,210,361
Deferred revenue (Note 6)	3,083,802	3,304,074
Other	2,699,134	2,873,937
Total other long-term liabilities	23,950,835	17,688,372
Long-term Debt - Less current portion (Note 5)	407,799,118	164,663,012
Total liabilities	487,376,761	230,429,111
Net Assets		
Invested in capital assets	373,763,957	386,867,933
Restricted for debt service (Note 4)	37,180,252	38,547,547
Unrestricted	125,926,511	103,811,354
Total net assets	536,870,720	529,226,834
Total liabilities and net assets	<u>\$ 1,024,247,481</u>	<u>\$ 759,655,945</u>

Board of Water and Light - City of Lansing, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2011	2010
Operating Revenues (Note 1)		
Water	\$ 31,586,012	\$ 28,843,792
Electric	259,665,261	231,810,593
Steam	9,744,637	8,445,549
Chilled water	5,116,727	4,773,042
Total operating revenues	306,112,637	273,872,976
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	149,371,642	140,396,919
Maintenance	26,577,351	16,614,892
Transmission and distribution:		
Operating expenses	6,431,356	6,438,471
Maintenance	7,490,376	6,943,539
Administrative and general	62,690,708	60,271,297
Depreciation and impairment (Note 1)	30,098,723	29,664,302
Total operating expenses	282,660,156	260,329,420
Operating Income	23,452,481	13,543,556
Nonoperating Income (Expenses)		
Investment income	(33,380)	1,521,483
Other income	812,835	5,196,043
System capacity fee	9,258,007	9,220,856
Bonded debt interest expense	(7,388,739)	(8,093,536)
Amortization - Central Utilities Complex	(6,714,059)	(5,926,370)
Payment in lieu of taxes (Note 7)	(11,732,538)	(10,523,512)
Other interest expense	(10,721)	(10,633)
Total nonoperating income (expenses) - Net	(15,808,595)	(8,615,669)
Net Income (Changes in Net Assets)	7,643,886	4,927,887
Net Assets - Beginning of year	529,226,834	524,298,947
Net Assets - End of year	<u>\$ 536,870,720</u>	<u>\$ 529,226,834</u>

Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Cash from customers:		
Water	\$ 32,536,381	\$ 29,343,604
Electric	250,246,074	230,283,020
Steam	9,650,689	9,421,379
Chilled water	5,070,293	5,181,780
Total cash from customers	297,503,437	274,229,783
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(123,110,837)	(110,316,562)
Other suppliers	(77,803,963)	(66,793,642)
Total cash paid to suppliers	(200,914,800)	(177,110,204)
Cash paid to employees	(52,536,526)	(49,650,177)
Payment in lieu of taxes (Note 7)	(11,732,538)	(10,523,512)
Cash from customer deposits	(97,273)	167,876
Interest on customer deposits	(10,721)	(10,633)
Net cash provided by operating activities	32,211,579	37,103,133
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	259,998,403	3,198,779
Planned, bonded, and annual construction	(37,021,064)	(35,865,405)
Principal payments on debt	(13,923,555)	(10,660,803)
System capacity fees	9,258,007	9,220,856
Interest on debt	(7,097,178)	(8,886,789)
Net cash provided by (used in) capital and related financing activities	211,214,613	(42,993,362)
Cash Flows from Noncapital Financing Activities		
Proceeds from the sale of emissions allowances	25,272	573,986
Proceeds from the Belle River Project and other	9,152,248	711,842
Net cash provided by noncapital financing activities	9,177,520	1,285,828
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	99,959,616	108,133,593
Interest received	269,649	2,969,844
Purchase of investments	(349,293,968)	(103,811,869)
Net cash (used in) provided by investing activities	(249,064,703)	7,291,568
Net Increase in Cash and Cash Equivalents	3,539,009	2,687,167
Cash and Cash Equivalents - Beginning of year	81,377,005	78,689,838
Cash and Cash Equivalents - End of year	\$ 84,916,014	\$ 81,377,005

Board of Water and Light - City of Lansing, Michigan

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2011	2010
Balance Sheet Classifications		
Restricted cash and cash equivalents	\$ 37,681,413	\$ 38,547,547
Cash and cash equivalents	47,234,603	42,829,458
Cash and Cash Equivalents - End of year	\$ 84,916,016	\$ 81,377,005

Reconciliation of Operating Income to Net Cash from Operating Activities:

	Year Ended June 30	
	2011	2010
Operating income	\$ 23,452,481	\$ 13,543,556
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(11,732,538)	(10,523,512)
Depreciation	30,098,723	29,664,302
Sewerage collection fees	869,396	865,755
Interest on customer deposits	(10,721)	(10,633)
(Increase) decrease in assets:		
Accounts receivable (Note 1)	(1,073,708)	(1,572,066)
Unbilled accounts receivable (Note 1)	(2,003,051)	(1,360,204)
Inventories	(2,562,252)	1,140,287
Customer deposits	(97,273)	167,876
Special deposit	(3,625,000)	-
Other	(5,125,454)	3,104,651
Increase in liabilities:		
Accounts payable and other accrued expenses	4,069,044	(1,631,444)
Other and deferred costs	(48,068)	3,714,565
Total adjustments	8,759,098	23,559,577
Net cash provided by operating activities	\$ 32,211,579	\$ 37,103,133

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Net Assets

	June 30	
	2011	2010
Assets		
Receivable - Investment interest receivable	\$ 149,131	\$ 171,353
Investments at fair value:		
Money market collective trust fund	9,011,012	6,087,150
U.S. government obligations	8,227,576	11,370,948
Corporate bonds and notes	17,233,138	12,916,628
Mutual funds	131,700,295	108,853,223
Stable value	29,508,146	27,747,904
Equities	122,654,629	94,183,399
Alternative investments	826,816	868,820
Self-directed brokerage account	701,335	368,278
Participant notes receivable	3,709,670	3,399,091
	<u>323,572,617</u>	<u>265,795,441</u>
Net Assets	<u>\$ 323,721,748</u>	<u>\$ 265,966,794</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statement of Changes in Net Assets

	Year Ended June 30	
	2011	2010
Increases		
Investment income:		
Net appreciation in fair value of investments	\$ 54,166,894	\$ 21,841,725
Interest and dividend income	<u>4,982,161</u>	<u>4,403,578</u>
Net investment income	59,149,055	26,245,303
Employer contributions	22,929,394	28,968,430
Participant rollover contributions	2,710,113	1,973,464
Other	<u>421,830</u>	<u>220,112</u>
Total increases	85,210,392	57,407,309
Decreases		
Benefits paid to participants	27,270,030	26,469,480
Loan defaults	116,656	139,718
Participants' note and administrative fees	<u>68,752</u>	<u>49,830</u>
Total decreases	<u>27,455,438</u>	<u>26,659,028</u>
Net Change in Assets Held	57,754,954	30,748,281
Assets Held in Trust for Pension Benefits		
Beginning of year	<u>265,966,794</u>	<u>235,218,513</u>
End of year	<u>\$ 323,721,748</u>	<u>\$ 265,966,794</u>

Board of Water and Light - City of Lansing, Michigan

**Notes to Financial Statements
June 30, 2011 and 2010**

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 electric, water, steam, and chilled water services of the City. The commissioners of the governing board are appointed by the mayor with approval of the City Council. The BWL provides water, steam, chilled water, and electric services to the City and surrounding townships. The governing board (Board of Commissioners) has the exclusive authority to set rates for the services provided. The financial statements include the financial activities of the electric, water, steam, and chilled water operations of the BWL. The financial statements also include the financial activities of the BWL Pension Trust Funds. The BWL is exempt from taxes on income because it is a municipal entity.

Basis of Accounting - The BWL utilizes the accrual basis of accounting. In addition, the BWL follows the accounting and reporting requirements of the Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 980 – *Regulated Operations* 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 ASC 980, 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, 2011 and 2010

Note 1 - 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. In addition, BWL management has established a future construction fund designated to meet future construction requirements. These funds consist principally of commercial paper and United States government securities and are segregated as follows:

	Carrying Value	
	2011	2010
Designated purpose:		
Coal inventory fluctuation	\$ 4,352,456	\$ 4,294,619
Litigation, environmental, and uninsured losses	17,593,099	17,298,321
Future water facilities	<u>3,544,790</u>	<u>3,485,385</u>
Subtotal	25,490,345	25,078,325
Special purpose:		
Future construction	<u>18,000,000</u>	<u>-</u>
Total	<u>\$ 43,490,345</u>	<u>\$ 25,078,325</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 1 - Significant Accounting Policies (Continued)

Accounts Receivable - Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Customer receivables	\$ 16,404,073	\$ 15,330,367
Sewerage collections	1,939,710	1,875,683
Combined sewer overflow - City of Lansing	(286,493)	1,480,464
MPPA receivable	642,942	9,593,285
Miscellaneous	6,581,657	4,314,765
Less allowance for doubtful accounts	<u>(1,200,000)</u>	<u>(1,200,000)</u>
Net	<u>\$ 24,081,889</u>	<u>\$ 31,394,564</u>

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

	<u>2011</u>	<u>2010</u>
Coal	\$ 12,629,329	\$ 10,628,760
Materials and supplies	<u>11,263,646</u>	<u>10,701,963</u>
Total	<u>\$ 23,892,975</u>	<u>\$ 21,330,723</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note I - Significant Accounting Policies (Continued)

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 ASC 980. The resulting provisions for depreciation in 2011 and 2010, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant:	Life (Years)	Average Rate (Percent)	
		2011	2010
Water	4-100	1.9	1.9
Electric	4-50	3.1	3.1
Steam	5-50	2.0	2.2
Chilled water	5-50	3.5	3.7
Common facilities	4-50	5.6	5.5
Central Utilities Complex	15	8.6	8.0

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

Accrued Compensated Absences - The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$11,452,227 and \$10,905,448 as of June 30, 2011 and 2010, respectively.

Capital Contributions - Capital contributions represent nonrefundable amounts received from customers for construction of the 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 ASC 980.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 1 - Significant Accounting Policies (Continued)

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, 2011 and 2010 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 \$5,874,009 and \$5,099,341 in 2011 and 2010, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

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.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 1 - Significant Accounting Policies (Continued)

The BWL recognized a gain of \$25,272 and \$573,986 as of June 30, 2011 and 2010, respectively, from the sale of allowances and has recorded an intangible asset of approximately \$0 and \$714,031 as of June 30, 2011 and 2010, respectively, for purchased allowances related to future periods.

Significant Customers - The BWL has one customer which accounts for approximately 8 percent and 7 percent of the BWL's total revenue for the years ended June 30, 2011 and 2010, 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.

Reclassification - Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 2 - Rate Matters

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

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 is approximately \$16,407,000 and \$30,078,000 at June 30, 2011 and 2010, respectively, including commitments on existing construction contracts approximating \$4,426,000 and \$4,765,000 at June 30, 2011 and 2010, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 4 - Restricted Assets

Restricted assets are required under the 1999A, 1999B, 2002A, 2002B, 2003A, 2005A, 2008A, 2009A, and 2011A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, commercial paper, and United States government securities, are segregated into the following funds:

	Required at June 30, 2011	Carrying Value	
		2011	2010
Current:			
Operations and Maintenance Fund	\$ 21,261,000	\$ 68,466,953	\$ 65,832,750
Bond and Interest Redemption Fund	<u>16,420,413</u>	<u>16,449,063</u>	<u>15,544,255</u>
Total current	37,681,413	84,916,016	81,377,005
Noncurrent:			
2011 Bond and Interest Redemption	25,618,400	25,618,400	-
2011A, 2008A, and 2001 Construction Fund	210,844,456	210,844,456	17,811,563
Bond Reserve Fund	<u>25,708,991</u>	<u>25,746,052</u>	<u>13,778,042</u>
Total noncurrent	<u>262,171,847</u>	<u>262,208,908</u>	<u>31,589,605</u>
Total	<u>\$ 299,853,260</u>	<u>\$ 347,124,924</u>	<u>\$ 112,966,610</u>

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2011 and 2010

Note 4 - Restricted Assets (Continued)

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents for the year ended June 30, 2011.

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 1999A, 2002A, 2002B, 2003A, 2005A, 2008A, 2009A, and 2011A Revenue Bonds.
- **2001A, 2008A and 2011A 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 1999A, and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, 2008A, and 2011A 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.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Long-term Debt

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

	2011	2010
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2011A, due in annual principal installments beginning July 1, 2015 through July 1, 2041, plus interest at rates ranging from 3.00% to 5.50%	\$ 250,000,000	\$ -
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2009A, due in annual principal installments due serially through July 1, 2016, plus interest at a rate of 5.34%	40,005,000	46,255,000
Water Supply Utility System Revenue Bonds, Series 2008A, due serially beginning July 1, 2012 and continuing through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%	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 4.00% to 5.00%	27,075,000	27,490,000
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%	21,305,000	21,685,000
Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.50% to 3.75%	6,930,000	9,055,000

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Long-term Debt (Continued)

	2011	2010
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999A, due serially through July 1, 2011, plus interest at a rate of 5.10%	\$ 1,035,000	\$ 3,435,000
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%	12,088,000	13,416,178
Promissory note, due in monthly installments of \$25,177.37 including interest at 4.85%, with final payment on December 31, 2013	709,977	970,770
Township contract water service obligation with interest due semiannually at 6.00% and portions of principal due annually, with final payment in May 2015	145,000	175,000
Delta Township Drain Assessment due serially through January 15, 2025, plus interest at a rate of 5.25%	1,190,907	1,275,972
Granger III Corporation for ash hauling services due in monthly installments ranging from \$150,000 to \$250,000	5,109,856	1,703,976
Total	417,918,740	177,786,896
Less current portion	(15,411,114)	(12,472,372)
Less current portion of premium deferred amount of refunding on bonds	(37,898)	(228,347)
Plus unamortized premium	6,469,068	1,143,141
Deferred loss on refunding of bonds	(1,139,678)	(1,566,306)
Total long-term portion	<u>\$ 407,799,118</u>	<u>\$ 164,663,012</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 \$440,152,071 and \$193,197,998 at June 30, 2011 and 2010, respectively.

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

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Long-term Debt (Continued)

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

	Principal	Interest	Total
2012	\$ 15,411,114	\$ 7,338,151	\$ 22,749,265
2013	16,595,057	20,087,190	36,682,247
2014	14,283,595	18,878,094	33,161,689
2015	14,967,876	18,134,847	33,102,723
2016	11,807,254	17,474,820	29,282,074
2016-2021	50,931,544	79,636,778	130,568,322
2022-2026	48,352,555	69,359,983	117,712,538
2027-2031	58,836,183	56,980,062	115,816,245
2032-2042	186,733,562	74,533,056	261,266,618
Total	<u>\$ 417,918,740</u>	<u>\$ 362,422,981</u>	<u>\$ 780,341,721</u>

Resolutions of the 1999A bonds and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, 2008A, and 2011A 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, 2011, the balance of this reserve account was \$25,746,052 (see Note 4). The reserve requirements for a portion of the 2002B bonds are satisfied by the purchase of a debt service reserve fund surety bond. The 2009A bonds were a private placement issue and have no reserve requirement.

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

During the fiscal year ended June 30, 2011 the BWL issued a \$250,000,000 Water Supply, Steam Chilled Water, and Electric Utility system Revenue Bond Series 2011A with an interest rate of 3.0 to 5.5 percent; the proceeds were issued to provide funds for the purposes of financing cost of acquiring and constructing a cogeneration plant and constructing other improvements to the BWL's water supply, steam, chilled water and electric utilities. The bonds are secured by a statutory lien on, and payable from, net revenues from the water supply, steam, chilled water and electric utilities of the BWL.

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.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Long-term Debt (Continued)

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 \$59,349,000 and \$68,514,000 at June 30, 2011 and 2010, 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 BWL in such order of maturity as the BWL shall determine and within a single maturity by lot on any date on or after July 1, 2018, at par plus accrued interest to the date fixed for redemption.

The 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.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Long-term Debt (Continued)

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 long-term debt activity for the year ended June 30, 2011 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 159,594,150	\$ 17,541,234	\$ 177,135,384
Additions	255,714,641	4,283,762	259,998,403
Reductions	<u>(11,341,653)</u>	<u>(2,581,902)</u>	<u>(13,923,555)</u>
Ending balance	<u>\$ 403,967,138</u>	<u>\$ 19,243,094</u>	<u>\$ 423,210,232</u>
Due within one year	\$ 12,200,000	\$ 3,211,114	\$ 15,411,114

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 \$748,335,668. During the current year, net revenues of the BWL were \$45,178,971 compared to the annual debt requirements of \$12,708,739.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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 ASC 980. The BWL has recorded deferred amortization of \$2,291,971 and \$3,934,097 at June 30, 2011 and 2010, 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.

Environmental Remediation

During the year ended June 30, 2004, ASC 980 was used in accounting for expenses to be incurred and the estimated liability for environmental remediation of a landfill site operated by the BWL. As of June 30, 2011 \$12,123,000 in total costs has been deferred as a regulatory asset. As of June 30, 2011 and 2010 the amounts remaining to be recovered in rates were \$1,681,835 and \$7,094,878, 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 ASC 980 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 asset and liability was made during the years ended June 30, 2011 and June 30, 2010 of \$11,700,000 and \$2,100,000, respectively. The balance of the regulatory asset at June 30, 2011 and 2010 was \$22,200,000 and \$10,500,000, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009 ASC 980 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2011 and 2010 that was added for additional sites was \$5,795,401 and \$2,481,102, respectively.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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

Deferred Cost Adjustments

During the year ended June 30, 2005, the Board of Commissioners approved the use of ASC 980 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 asset (costs) of \$1,184,086 and \$(5,217,753) at June 30, 2011 and 2010, respectively. This amount represents costs to be billed to customers in future years because actual costs of providing utilities were higher than the costs incorporated into the BWL's rates.

Renewable Energy Plan (REP) and Energy Optimization (EO)

During the year ended June 30, 2010, the Board of Commissioners approved the implementation of ASC 980 to account for Public Act 295 of 2008 (PA. 295). PA. 295 set forth requirements for all Michigan utilities to meet the new renewable energy standards and undertake energy optimization programs. As a municipally-owned electric utility the BWL was required to file a proposed energy plan with the Michigan Public Service Commission (MPSC) and this plan was approved on July 1, 2009. These charges will affect the amount to be billed to electric customers. This resulted in deferred asset (costs) of \$(2,152,326) and \$1,639,092 as of June 30, 2011 and June 30, 2010, respectively.

Chiller Plant

During the year ended June 30, 2010, the BWL chose to use ASC 980 to recognize the contribution in aid of construction (CIAC) from Christman Capital Development Company for the development of a new chilled water plant. This resulted in a deferred revenue of \$3,083,802 and \$3,304,074 as of June 30, 2011 and June 30, 2010, respectively. The BWL will recognize this as revenue monthly over the life of the new chilled water plant to offset depreciation expense.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 7 - Transactions with the City of Lansing, Michigan

Operations - The BWL recognized revenue of \$8,708,982 and \$8,183,498 in 2011 and 2010, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$432,427 and \$522,469 in 2011 and 2010, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$919,912 and \$935,138 in 2011 and 2010, respectively, included in other income.

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 wholesale revenue generated from the BWL's electric, water, steam, and chilled water utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City \$11,771,013 in 2011 and \$10,485,037 in 2010 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 July 1, 2010.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 8 - Retirement Plans (Continued)

The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a Defined Contribution Plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in 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.

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. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2011 and 2010.

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.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 8 - Retirement Plans (Continued)

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, 2011, 2010, and 2009 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 2011, 2010, and 2009.

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, 2011, 2010, and 2009. 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 2011, 2010, and 2009, compounded annually, (b) projected salary increases ranging from 5.0 to 11.0 percent in 2011, 2010, and 2009, 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.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 8 - Retirement Plans (Continued)

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

	2011	2010	2009
Annual pension cost	\$ 85,652	\$ 2,109,167	\$ -
Percentage of APC contributed	100%	100%	-
Net pension obligation	-	-	-

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

	2011	2010	2009
Normal cost	\$ 360,763	\$ 411,434	\$ 420,077
Amortization of the (overfunded)/ underfunded actuarial accrued liability	(281,087)	1,550,582	(3,324,485)
Total target contribution	79,676	1,962,016	(2,904,408)
Interest Factor	1.0750	1.0750	1.0625
Annual Required Contribution	\$ 85,652	\$ 2,109,167	\$ -

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

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) (in thousands)

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a
						Percentage of Covered Payroll
2/28/2009	\$ 64,844	\$ 79,558	\$ 14,714	81.51%	\$ 3,089	476.3
2/28/2010	78,244	75,577	(2,667)	103.53%	2,660	(100.3)
2/28/2011	85,587	74,292	(11,295)	115.20%	2,398	(471.0)

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

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

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 8 - Retirement Plans (Continued)

Defined Contribution Plan

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

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

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

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 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, 2011 and 2010, the BWL contributed \$5,607,367 and \$5,540,996, 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

Notes to Financial Statements June 30, 2011 and 2010

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 673 participants eligible to receive benefits at June 30, 2011 and 675 participants eligible at June 30, 2010.

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, 2011 and 2010, the cost to BWL of maintaining the Retiree Benefit Plan was \$17,236,375 and \$21,318,267, respectively, of which \$8,063,558 and \$11,636,652, respectively, was contributed to the VEBA trust and \$9,172,817 and \$9,681,615, respectively, was incurred as direct costs of benefits.

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

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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

The Plan'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, 2011 and 2010

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 6.43 percent and 6.61 percent for the years ended June 30, 2011 and 2010, respectively.

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 18,132	\$ 17,866	99%	\$ (123)
6/30/2010	21,291	21,318	100%	(150)
6/30/2011	17,300	17,236	100%	(86)

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 (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
2/28/2009	\$ 45,320	\$256,888	\$ 211,568	17.64%	\$48,784	433.7
2/28/2010	76,117	252,143	176,026	30.19%	50,769	346.7
2/28/2011	100,604	260,097	159,493	38.68%	54,070	295.0

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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, 2011 and 2010, the BWL has two unused letters of credit in the amounts of \$1,000,000 and \$817,220 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

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 \$15,823,930 and \$9,166,467 for the years ended June 30, 2011 and 2010, respectively. In accordance with ASC 980 (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 \$14,900,000.

The BWL has obtained financing to build a new combined cycle cogeneration facility. This project is scheduled to be completed in 2013. The project has an estimated cost to complete of \$203,671,000, including commitments on this project of \$117,101,000. This project is being refunded through the 2011A Bond.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

Note 9 - Commitments and Contingencies (Continued)

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

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2011 and 2010 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling approximately \$28,000,000 through December 31, 2012. 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 \$96,966,333 through December 2013.

The BWL has entered into agreements for other operating activities totaling \$709,977 through December 31, 2013.

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, 2011 and 2010

Note 10 - Power Supply Purchase (Continued)

Year	Debt Service	Estimated Fixed Operating	Total Required
2012	\$ 17,676,507	\$ 10,067,895	\$ 27,744,402
2013	17,676,656	10,319,593	27,996,249
2014	17,675,374	10,577,582	28,252,956
2015	17,675,941	10,842,022	28,517,963
2016	17,676,913	11,113,073	28,789,986
2017	8,838,457	11,390,899	20,229,356
Total	<u>\$ 97,219,848</u>	<u>\$ 64,311,064</u>	<u>\$ 161,530,912</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 2011 and 2010 of \$46,231,343 and \$44,502,670, 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

Notes to Financial Statements June 30, 2011 and 2010

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, 2011

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 year-end, the BWL had \$6,163,455 of bank deposits that were uninsured and uncollateralized. As a result of increases in FDIC insurance coverage from December 31, 2010 to December 31, 2012, deposits held in non-interestbearing accounts will be fully insured regardless of the amount. 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, 2011 and 2010

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	\$ 235,872,902	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments to a maximum maturity of five years unless matched to a specific cash flow. At year-end, the average maturities of investments are as follows:

	Fair Value	Less than	
		1 Year	1-5 Years
Pooled investment funds (if not 2a-7)	\$ 99,885,323	\$ 99,885,323	\$ -
U.S. government or agency bond or note	236,290,375	82,633,960	153,656,415
Commercial paper	20,035,622	20,035,622	-

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 8,227,576	24.67
Money Market Trust Funds	7,351,389	Less than 1 year
Corporate bonds	17,233,138	18.41

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of 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	\$99,885,323	AAA	S&P
Commercial paper	2,296,377	A2/P2	S&P
	2,296,215	A2/P2	S&P
	2,999,760	A1/P1	S&P
	1,012,260	A1/P1	S&P
	3,501,529	A1/P1	S&P
	2,939,231	A1/P2	S&P
	4,990,250	A1/P1	S&P

Concentration of Credit Risk - As of year-end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2011 and 2010

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

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$131,700,294	Not Rated	Not Rated
Government or agency bond	8,227,576	Not Rated	Not Rated
Stable value	29,508,146	AA	S&P
Corporate bonds	1,380,711	Not Rated	Not Rated
Corporate bonds	4,300,250	AAA	S&P
Corporate bonds	601,634	AA+	S&P
Corporate bonds	414,977	AA	S&P
Corporate bonds	664,477	AA-	S&P
Corporate bonds	2,274,050	A+	S&P
Corporate bonds	1,169,866	A	S&P
Corporate bonds	291,893	A-	S&P
Corporate bonds	467,087	BBB+	S&P
Corporate bonds	1,211,021	BBB	S&P
Corporate bonds	713,880	BBB-	S&P
Corporate bonds	685,366	BB+	S&P
Corporate bonds	407,801	BB	S&P
Corporate bonds	298,976	BB-	S&P
Corporate bonds	388,269	B+	S&P
Corporate bonds	435,229	B	S&P
Corporate bonds	675,676	B-	S&P
Corporate bonds	-	CCC+	S&P
Corporate bonds	851,975	CCC	S&P
Corporate bonds	-	CC	S&P

Foreign Currency Risk - The BWL holds no investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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

Risks at June 30, 2010

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 year-end, the BWL had \$14,452,294 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. 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	\$ 46,707,219	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments to a maximum maturity of five years unless matched to a specific cash flow. At year-end, the average maturities of investments are as follows:

	Fair Value	Less than	
		1 Year	1-5 Years
Pooled investment funds (if not 2a-7)	\$ 64,892,238	\$ 64,892,238	\$ -
U.S. government or agency bond or note	51,550,434	24,132,568	27,417,866
Commercial paper	8,547,111	8,547,111	-

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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	\$ 11,370,948	14.72
Money Market Trust Funds	5,567,295	Less than 1 year
Corporate bonds	12,916,628	19.80

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year-end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

	Fair Value	Less than	
		1 Year	1-5 Years
Pooled investment funds (if not 2a-7)	\$ 64,892,238	\$ 64,892,238	\$ -
U.S. government or agency bond or note	51,550,434	24,132,568	27,417,866
Commercial paper	8,547,111	8,547,111	-

Concentration of Credit Risk - As of year-end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements
June 30, 2011 and 2010

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

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$108,853,222	Not Rated	Not Rated
Government or agency bond	11,370,948	Not Rated	Not Rated
Stable value	27,747,905	AA	S&P
Corporate bonds	529,476	Not Rated	Not Rated
Corporate bonds	1,333,355	AAA	S&P
Corporate bonds	514,747	AA+	S&P
Corporate bonds	468,739	AA	S&P
Corporate bonds	667,781	AA-	S&P
Corporate bonds	1,396,161	A+	S&P
Corporate bonds	1,231,380	A	S&P
Corporate bonds	535,818	A-	S&P
Corporate bonds	313,172	BBB+	S&P
Corporate bonds	1,402,500	BBB	S&P
Corporate bonds	845,936	BBB-	S&P
Corporate bonds	475,689	BB+	S&P
Corporate bonds	532,769	BB	S&P
Corporate bonds	260,000	BB-	S&P
Corporate bonds	331,313	B+	S&P
Corporate bonds	249,817	B	S&P
Corporate bonds	803,511	B-	S&P
Corporate bonds	48,599	CCC+	S&P
Corporate bonds	944,566	CCC	S&P
Corporate bonds	31,299	CC	S&P

Foreign Currency Risk - The BWL holds no investments in foreign entities, currency, or debt.

Board of Water and Light - City of Lansing, Michigan

Notes to Financial Statements June 30, 2011 and 2010

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 1999A, Series 2002A and B, 2003A, 2005A, 2008A, and 2011A to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

The estimated liability for excess earnings was \$0 at June 30, 2011 and 2010. 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

**Notes to Financial Statements
June 30, 2011 and 2010**

Note 14 - Subsequent Events

In July 2011 an accident occurred at the Wise Road Water Conditioning Plant; human error resulted in Chlorine to be mixed in a tank that contained Fluoride. The resulting compound is very corrosive and caused damage to much of the equipment in the plant. The plant is currently functioning in a manual mode while the damage can be evaluated and repairs made. The BWL has adequate insurance that is expected to cover all associated costs for repair less the deductible.

In July and August of 2011, financial markets experienced a high degree of volatility; the investment portfolio held by BWL experienced consistent volatility.

Additional Information

Board of Water and Light - City of Lansing, Michigan

Income Available for Revenue Bond Debt Retirement

	Year Ended June 30	
	2011	2010
Income - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 7,643,886	\$ 4,927,887
Adjustments to Income		
Depreciation and impairment	30,098,723	29,664,302
Interest on long-term debt:		
Notes	10,721	10,633
Revenue bonds	<u>7,388,739</u>	<u>8,093,536</u>
Total additional income	<u>37,498,183</u>	<u>37,768,471</u>
Income Available for Revenue Bonds and Interest Redemption	<u>\$ 45,142,069</u>	<u>\$ 42,696,358</u>
Debt Retirement Pertaining to Revenue Bonds		
Principal	\$ 5,320,000	\$ 10,135,000
Interest	<u>7,388,739</u>	<u>8,093,536</u>
Total	<u>\$ 12,708,739</u>	<u>\$ 18,228,536</u>
Percent Coverage of Revenue Bonds and Interest Requirements	<u>355</u>	<u>234</u>

Board of Water and Light - City of Lansing, Michigan

	Combined		Eliminations	
	2011	2010	2011	2010
Operating Revenues				
Water	\$ 31,586,012	\$ 28,843,792	\$ -	\$ -
Electric:				
Retail	229,087,434	189,238,989	-	-
Sales for resale	30,577,827	42,571,604	-	-
Steam	9,744,637	8,445,549	-	-
Chilled water	5,116,727	4,773,042	-	-
	<u>306,112,637</u>	<u>273,872,976</u>	<u>-</u>	<u>-</u>
Total operating revenues				
Operating Expenses				
Production:				
Fuel, purchased power, and other operating expenses	149,371,642	140,396,919	-	-
Maintenance	26,577,351	16,614,892	-	-
Transmission and distribution:				
Operating expenses	6,431,356	6,438,471	-	-
Maintenance	7,490,376	6,943,539	-	-
Administrative and general	62,690,708	60,271,297	-	-
Depreciation and impairment	30,098,723	29,664,302	-	-
	<u>282,660,156</u>	<u>260,329,420</u>	<u>-</u>	<u>-</u>
Total operating expenses				
Operating Income	23,452,481	13,543,556	-	-
Nonoperating Income (Expenses)				
Investment income	(33,380)	1,521,483	-	-
Other income	812,835	5,196,043	-	-
System capacity fees	9,258,007	9,220,856	-	-
Bonded debt interest expense	(7,388,739)	(8,093,536)	-	-
Amortization - Central Utilities Complex	(6,714,059)	(5,926,370)	-	-
Payment in lieu of taxes	(11,732,538)	(10,523,512)	-	-
Other interest expense	(10,721)	(10,633)	-	-
	<u>(15,808,595)</u>	<u>(8,615,669)</u>	<u>-</u>	<u>-</u>
Total nonoperating expense				
Income (Loss)	<u>\$ 7,643,886</u>	<u>\$ 4,927,887</u>	<u>\$ -</u>	<u>\$ -</u>

**Detail of Statement of Revenues and Expenses
Year Ended June 30, 2011 and 2010**

Water		Electric		Steam		Chilled Water	
2011	2010	2011	2010	2011	2010	2011	2010
\$ 31,586,012	\$ 28,843,792	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	229,087,434	189,238,989	-	-	-	-
-	-	30,577,827	42,571,604	-	-	-	-
-	-	-	-	9,744,637	8,445,549	-	-
-	-	-	-	-	-	5,116,727	4,773,042
<u>31,586,012</u>	<u>28,843,792</u>	<u>259,665,261</u>	<u>231,810,593</u>	<u>9,744,637</u>	<u>8,445,549</u>	<u>5,116,727</u>	<u>4,773,042</u>
7,572,593	6,968,170	134,743,574	126,653,319	5,580,598	5,212,070	1,474,877	1,563,360
2,480,768	2,532,341	22,941,450	12,613,383	1,010,205	1,221,350	144,928	247,818
1,330,587	1,462,650	4,925,663	4,813,785	175,106	162,036	-	-
2,322,015	1,786,235	4,738,849	4,680,732	416,231	461,639	13,281	14,933
10,027,831	10,525,972	49,839,146	45,748,420	2,457,585	3,673,736	366,146	323,169
<u>5,891,512</u>	<u>5,743,464</u>	<u>21,847,287</u>	<u>21,514,321</u>	<u>1,035,915</u>	<u>1,084,555</u>	<u>1,324,009</u>	<u>1,321,962</u>
<u>29,625,306</u>	<u>29,018,832</u>	<u>239,035,969</u>	<u>216,023,960</u>	<u>10,675,640</u>	<u>11,815,386</u>	<u>3,323,241</u>	<u>3,471,242</u>
1,960,706	(175,040)	20,629,292	15,786,633	(931,003)	(3,369,837)	1,793,486	1,301,800
34,238	404,890	(20,745)	935,762	49,480	94,796	(96,353)	86,035
873,670	93,811	364,792	4,885,674	(649,717)	213,722	224,090	2,836
811,001	807,747	7,741,546	7,710,480	705,460	702,629	-	-
(2,656,273)	(2,725,493)	(3,356,718)	(3,429,322)	307,571	(200,471)	(1,683,319)	(1,738,250)
(588,152)	(519,150)	(5,614,296)	(4,955,631)	(511,611)	(451,589)	-	-
(1,218,752)	(1,122,407)	(9,961,241)	(8,900,670)	(351,207)	(310,167)	(201,338)	(190,268)
<u>27,357</u>	<u>3,376</u>	<u>(38,057)</u>	<u>(13,932)</u>	<u>(21)</u>	<u>(77)</u>	<u>-</u>	<u>-</u>
<u>(2,716,911)</u>	<u>(3,057,226)</u>	<u>(10,884,719)</u>	<u>(3,767,639)</u>	<u>(450,045)</u>	<u>48,843</u>	<u>(1,756,920)</u>	<u>(1,839,647)</u>
<u>\$ (756,205)</u>	<u>\$ (3,232,266)</u>	<u>\$ 9,744,573</u>	<u>\$ 12,018,994</u>	<u>\$ (1,381,048)</u>	<u>\$ (3,320,994)</u>	<u>\$ 36,566</u>	<u>\$ (537,847)</u>

Board of Water and Light - City of Lansing, Michigan

Detail of Statement of Changes in Net Assets

	Combined	Water	Electric	Steam	Chilled Water
Net Assets - June 30, 2009	\$ 524,298,947	\$ 94,074,083	\$ 430,983,319	\$ (538,754)	\$ (219,701)
Income (loss) before contributions	<u>4,927,887</u>	<u>(3,232,267)</u>	<u>12,018,994</u>	<u>(3,320,993)</u>	<u>(537,847)</u>
Net Assets - July 1, 2010	529,226,834	90,841,816	443,002,313	(3,859,747)	(757,548)
Income (loss) before contributions	<u>7,643,886</u>	<u>(756,205)</u>	<u>9,744,571</u>	<u>(1,381,047)</u>	<u>36,567</u>
Net Assets - June 30, 2011	<u>\$ 536,870,720</u>	<u>\$ 90,085,611</u>	<u>\$ 452,746,884</u>	<u>\$ (5,240,794)</u>	<u>\$ (720,981)</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Net Assets

	June 30, 2011			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
Assets				
Receivable - Investment interest receivable	\$ -	\$ 71,171	\$ 77,960	\$ 149,131
Investments at fair value:				
Money market collective trust fund	-	2,786,848	6,224,164	9,011,012
U.S. government obligations	-	3,865,597	4,361,979	8,227,576
Corporate bonds and notes	-	8,157,858	9,075,280	17,233,138
Mutual funds	102,476,112	11,550,723	17,673,460	131,700,295
Stable value	29,508,146	-	-	29,508,146
Equities	-	56,145,436	66,509,193	122,654,629
Alternative investments	-	363,525	463,291	826,816
Self-directed brokerage account	701,335	-	-	701,335
Participant notes receivable	3,709,670	-	-	3,709,670
Total investments	<u>136,395,263</u>	<u>82,869,987</u>	<u>104,307,367</u>	<u>323,572,617</u>
Net Assets	<u>\$ 136,395,263</u>	<u>\$ 82,941,158</u>	<u>\$ 104,385,327</u>	<u>\$ 323,721,748</u>

	June 30, 2010			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
Assets				
Receivable - Investment interest receivable	\$ -	\$ 86,881	\$ 84,472	\$ 171,353
Investments at fair value:				
Money market collective trust fund	-	2,409,827	3,677,323	6,087,150
U.S. government obligations	-	5,496,939	5,874,009	11,370,948
Corporate bonds and notes	-	7,081,184	5,835,444	12,916,628
Mutual funds	83,744,758	10,709,357	14,399,108	108,853,223
Stable value	27,747,904	-	-	27,747,904
Equities	-	47,028,084	47,155,315	94,183,399
Alternative investments	-	465,423	403,397	868,820
Self-directed brokerage account	368,278	-	-	368,278
Participant notes receivable	3,399,091	-	-	3,399,091
Total investments	<u>115,260,031</u>	<u>73,190,814</u>	<u>77,344,596</u>	<u>265,795,441</u>
Net Assets	<u>\$ 115,260,031</u>	<u>\$ 73,277,695</u>	<u>\$ 77,429,068</u>	<u>\$ 265,966,794</u>

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Assets Year Ended June 30, 2011

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	\$ 20,313,200	\$ 16,373,304	\$ 17,480,390	\$ 54,166,894
Interest and dividend income	2,398,454	1,171,396	1,412,311	4,982,161
Net investment income (loss)	22,711,654	17,544,700	18,892,701	59,149,055
Employer contributions	5,607,367	85,652	17,236,375	22,929,394
Participant rollover contributions	2,710,113	-	-	2,710,113
Other	421,830	-	-	421,830
Total increases - Net of depreciation in fair value of investments	31,450,964	17,630,352	36,129,076	85,210,392
Decreases				
Benefits paid to participants	10,130,324	7,966,889	9,172,817	27,270,030
Loan defaults	116,656	-	-	116,656
Participants' note and administrative fees	68,752	-	-	68,752
Total decreases	10,315,732	7,966,889	9,172,817	27,455,438
Net Change in Assets Held	21,135,232	9,663,463	26,956,259	57,754,954
Assets Held in Trust for Pension Benefits				
Beginning of year	115,260,031	73,277,695	77,429,068	265,966,794
End of year	<u>\$ 136,395,263</u>	<u>\$ 82,941,158</u>	<u>\$ 104,385,327</u>	<u>\$ 323,721,748</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, 2010

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ 9,703,650	\$ 7,373,339	\$ 4,764,736	\$ 21,841,725
Interest and dividend income	2,013,375	1,201,351	1,188,852	4,403,578
Total investment income	11,717,025	8,574,690	5,953,588	26,245,303
Employer contributions	5,540,996	2,109,167	21,318,267	28,968,430
Participant rollover contributions	1,973,464	-	-	1,973,464
Other	220,112	-	-	220,112
Total increases - Net of depreciation in fair value of investments	19,451,597	10,683,857	27,271,855	57,407,309
Decreases				
Benefits paid to participants	6,059,106	10,728,759	9,681,615	26,469,480
Loan defaults	139,718	-	-	139,718
Participants' note and administrative fees	49,830	-	-	49,830
Total decreases	6,248,654	10,728,759	9,681,615	26,659,028
Net Change in Assets Held	13,202,943	(44,902)	17,590,240	30,748,281
Assets Held in Trust for Pension Benefits				
Beginning of year	102,057,088	73,322,597	59,838,828	235,218,513
End of year	<u>\$ 115,260,031</u>	<u>\$ 73,277,695</u>	<u>\$ 77,429,068</u>	<u>\$ 265,966,794</u>