FINANCE COMMITTEE MEETING
AGENDA

Tuesday, September 13, 2016

6:00 P.M. -1201 S. Washington Ave.
Lansing, MI – REO Town Depot
Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of July 12, 2016……………………………………….**TAB 1**

2. Baker Tilly External Audit Report – Resolution……………………………………………….**TAB 2**

3. Preliminary July Financial Highlights………………………………………………………….**INFO ONLY**

4. DB and VEBA Investment Policy Statements – Resolution…………………………………..**TAB 3**

5. Public Comment

6. Other

Adjourn

FINANCE COMMITTEE
July 12, 2016

The Finance Committee of the Lansing Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, July 12, 2016.

Finance Committee Chairperson Ken Ross called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Dennis M. Louney, David Price and Tracy Thomas. Also, present Commissioners Tony Mullen, Sandra Zerkle and Non-Voting Members Stuart Goodrich (Delhi Township), Bill Long (Delta Township), Bob Nelson (E. Lansing).

Absent: None.

The Corporate Secretary declared a quorum.

Approval of Minutes

Motion by Commissioner Thomas, Seconded by Commissioner Price, to approve the Finance Committee meeting minutes of May 10, 2016.

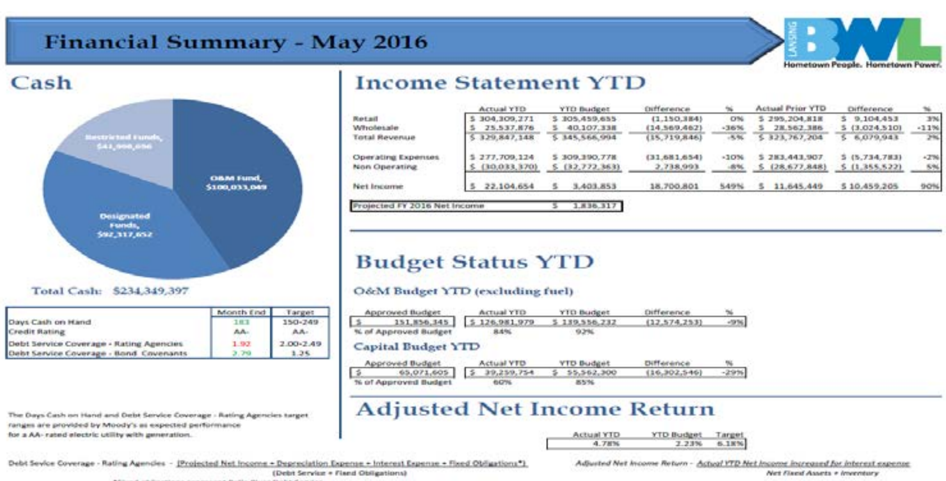
Action: Motion Carried.

Public Comment

None.

YTD Financial Overview

Chief Financial Officer Heather Shawa-DeCook presented the May 2016 Financial Summary below:



Financial Summary - May 2016

Hometown People. Hometown Power.

Cash

Restricted Funds, $41,998,696

O&M Fund, $100,033,049

Designated Funds, $92,317,652

Total Cash: $234,349,397

	Month End	Target
Days Cash on Hand	183	150-249
Credit Rating	AA-	AA-
Debt Service Coverage - Rating Agencies	1.92	2.00-2.49
Debt Service Coverage - Bond Covenants	2.79	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are provided by Moody's as expected performance for a AA- rated electric utility with generation.

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	$ 304,309,271	$ 305,459,655	(1,150,384)	0%	$ 295,204,818	$ 9,104,453	3%
Wholesale	$ 25,537,876	$ 40,107,338	(14,569,462)	-36%	$ 28,562,386	$ (3,024,510)	-11%
Total Revenue	$ 329,847,148	$ 345,566,994	(15,719,846)	-5%	$ 323,767,204	$ 6,079,943	2%
Operating Expenses	$ 277,709,124	$ 309,390,778	(31,681,654)	-10%	$ 283,443,907	$ (5,734,783)	-2%
Non Operating	$ (30,033,370)	$ (32,772,363)	2,738,993	-8%	$ (28,677,848)	$ (1,355,522)	5%
Net Income	$ 22,104,654	$ 3,403,853	18,700,801	549%	$ 11,645,449	$ 10,459,205	90%

Projected FY 2016 Net Income	$ 1,836,317

Budget Status YTD

O&M Budget YTD (excluding fuel)

Approved Budget	Actual YTD	YTD Budget	Difference	%
$ 151,856,345	$ 126,981,979	$ 139,556,232	(12,574,253)	-9%
% of Approved Budget	84%	92%		

Capital Budget YTD

Approved Budget	Actual YTD	YTD Budget	Difference	%
$ 65,071,605	$ 39,259,754	$ 55,562,300	(16,302,546)	-29%
% of Approved Budget	60%	85%		

Adjusted Net Income Return

Actual YTD	YTD Budget	Target
4.78%	2.23%	6.18%

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

*Fixed obligations represent Belle River Debt Service

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

Financial Summary -May 2016

Hometown People. Hometown Power.

Ratios

Operating Ratio

			APPA Median
O&M Expense	$ 240,204,303	= 0.73	0.71
Revenue	$ 329,847,148		

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

Current Ratio

			APPA Median
Current Assets	$ 227,152,661	= 3.79	2.07
Current Liabilities	$ 59,961,840		

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

Debt to Total Assets

			APPA Median
LT Debt + Accrued Liabilities	$ 425,044,905	= 0.41	0.61
Total Assets	$ 1,038,294,473		

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

Days' Sales Outstanding

			Prior Year
Accounts Receivable	$ 29,506,092	= 1.08	20
Average Sales	$ 27,229,240	X 31	
		34 Days	

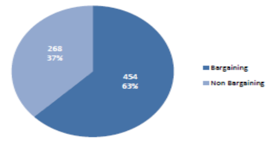
Bad Debt

APPA Median 0.28%

Actual YTD	YTD Budget	Over/(Under)	% of Revenue
$1,700,633	$1,710,006	-$9,373	0.52%

Employee Data

Employee Count YTD	722
Budget YTD	754
Over (Under) #	(32)
Over (Under) %	-4.2%
Prior YTD	724
Difference	-2
Temporary Employee YTD	19



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	$ 50,422,171	$51,013,648	$ (591,477)	-1.2%	$ 48,959,522	$ 1,462,649	3.0%
Overtime	$ 6,965,922	$ 5,469,556	$ 1,496,366	27.4%	$ 7,522,182	$ (556,260)	-7.4%
Total	$ 57,388,093	$56,483,204	$ 904,889	1.6%	$ 56,481,704	$ 906,389	1.6%
Total Hours Worked	1,277,814				1,259,142		
Labor/Hours Worked	$ 44.91				$ 44.86		

APPA Median	$ 44.13

APPA Median data is based on 2014 numbers and does not reflect subsequent labor inflation.

Benefits Cost
(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	$ 11,384,803	$ 12,730,793	$ (1,345,990)
RX	$ 3,091,174	$ 2,959,634	$ 131,540
Dental	$ 963,994	$ 1,250,662	$ (286,668)
Life	$ 266,498	$ 292,674	$ (26,176)
FICA	$ 4,289,821	$ 4,233,732	$ 56,089
Other	$ 2,578,888	$ 3,140,575	$ (561,687)
Total	$ 22,575,178	$ 24,608,070	$ (2,032,892)

<u>Six Year Forecast Overview/Resolution</u>

Chair Ross suggested reviewing the PowerPoint presentation page by page to address any questions.

Chief Financial Officer Heather Shawa-DeCook presented the FY 2017-2022 Financial Plan as follows:

FY 2017-2022 Financial Plan

- Six-Year Operating Forecast
  - Financial Goals
  - Financial Assumptions
  - Rate of Return
- Six-Year Capital Forecast
- Already Completed and Next Steps

Financial Goals

- Maintain credit quality
  - BWL is currently a AA- Rated Utility
- Ensure adequate liquidity
  - Ability to meet near term obligations when due
  - Target Days Cash on Hand Range 150-249*
  - Target Debt Service Coverage 2.00-2.49*
- Maintain rate competitiveness
- 4.81% Rate of Return

Chief Financial Officer Heather Shawa-DeCook noted to the Committee the Board of Water and Light's AA- credit rating and the benefits maintaining that status. She stated that there is a cost to having higher top quality ratings; therefore all considerations should be understood.

In addition, there was discussion regarding future plans to ensure that the BWL is competitive with regard to rates of other utilities. General Manager Peffley provided a few of his ideas regarding this matter which include having at least a 10% residential rate differential between the BWL and the nearest competitor.

Rate of Return

- In August 2008, the Board approved a target rate of return of 6.18%
- The rate of return was determined using a methodology provided by Utility Financial Solutions and used by municipal utilities where the Board also indicated that the approach should allow for flexibility to adjust the calculated return upward for large construction projects and other unusual circumstances.
- Under this methodology, a rate of return is calculated that blends the utilities borrowing rate with double the inflation rate
- This return allows the utility to pay for interest costs and also provides for the replacement of aging infrastructure as it is removed from service
- The target return in dollars is calculated by multiplying the rate of return by the utility's rate base which includes net fixed assets and inventory
- The rate of return achieved is calculated with the following formula:
  - (Net Income – Interest Income + Interest Expense) / (Net Fixed Assets + Inventory)
- The rate of return has been recalculated using current inflation, debt rate, and rate base information. With the updated information, the needed return is calculated at 4.81%.
- The forecast presented is based on the updated return calculation of 4.81%.

Financial Assumptions

- Projected sales levels
  - Electric – Slight increase in retail sales and decline in wholesale sales reflecting lower wholesale market prices and the 2020 removal of generation provided by Eckert.
  - Water – Retail sales held constant for forecast period. Slight increase in wholesale.
  - Steam – Held constant.
  - Chilled Water – Held constant.
- Operating expenses are forecast to increase from FY 2017 through FY 2022 at an annual 2.4% inflationary rate.*
- Any potential impact related to Eckert replacement generation has not been included in this forecast.
- Upcoming labor contract negotiations has not been included.

Chief Financial Officer Heather Shawa-DeCook stated that based on forecasted recommendations at the end of the six year period the BWL will achieve the target 4.81 % Rate of Return.

FY 2017 - FY 2022 Six Year Forecast						
In $000's	2017	2018	2019	2020	2021	2022
Rate Increase:						
Electric	0.0%	2.4%	2.4%	2.4%	2.4%	2.4%
Water	0.0%	5.5%	5.5%	5.5%	5.5%	5.5%
Steam	0.0%	5.4%	5.4%	5.4%	5.4%	5.4%
Chilled Water	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (Loss):						
Electric	$ 8,015	$ 11,168	$ 10,811	$ 14,192	$ 13,792	$ 14,721
Water	$ 2,288	$ 4,868	$ 5,933	$ 6,997	$ 8,356	$ 9,666
Steam	$ (960)	$ 197	$ 465	$ 736	$ 1,094	$ 1,282
Chilled Water	$ 770	$ 1,199	$ 1,244	$ 1,229	$ 1,340	$ 1,386
Total Net Income	**$ 10,113**	**$ 17,431**	**$ 18,453**	**$ 23,154**	**$ 24,582**	**$ 27,055**
Return on Rate Base						
Electric	3.9%	4.2%	4.0%	4.5%	4.5%	4.8%
Water	1.8%	2.9%	3.2%	3.6%	4.2%	4.8%
Steam	1.5%	3.5%	3.8%	4.0%	4.5%	4.8%
Chilled Water	4.9%	6.5%	6.8%	6.8%	7.3%	7.6%
Total	**3.1%**	**3.8%**	**3.8%**	**4.3%**	**4.5%**	**4.9%**
Unrestricted Cash Balance	**$ 137,301**	**$ 102,237**	**$ 88,018**	**$ 91,828**	**$ 108,907**	**$ 117,473**
Days Cash on Hand	**167**	**123**	**111**	**116**	**136**	**138**
Debt Service Coverage	**1.94**	**2.16**	**2.51**	**2.63**	**2.58**	**2.70**

7

Finance Chair Ross emphasized that the progression for the Rate on Return Base, for any year between 2017 and 2022 would not actually be achieved, but if the BWL pursued the outlined strategy as indicated in the PowerPoint graph (see above) and if the assumptions are correct, by the end of that 6 year period, the target rate of 4.81 would be met.

Annual Net Income by Utility

8

In response to a question regarding the net income of steam, General Manager Peffley stated that there is an ongoing expense with steam and the BWL has a plan to replace all steam infrastructures. Revenue in that area continues to decline, mainly as a result of a large steam utility customer creating a technology to produce its own steam. However, the Board of Water and Light expects to return to the positive with projected rate increases to hit and support the long-term Rate of Return.

Without Forecast Rate Increases

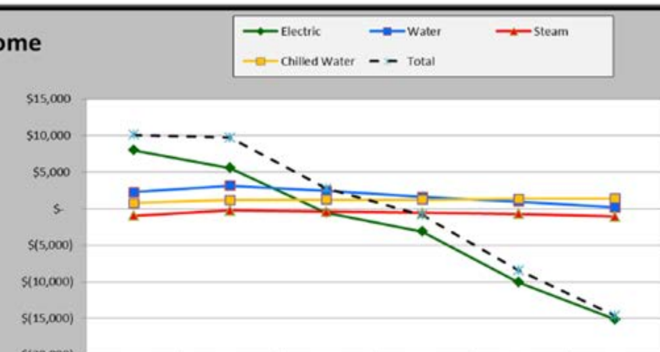
FY 2017 - FY 2022 Six Year Forecast

In $000's		2017		2018		2019		2020		2021		2022
Rate Increase:												
Electric		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Water		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Steam		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Chilled Water		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Net Income (Loss):												
Electric	$	8,015	$	5,588	$	(536)	$	(3,128)	$	(10,059)	$	(15,126)
Water	$	2,288	$	3,170	$	2,443	$	1,615	$	978	$	181
Steam	$	(960)	$	(219)	$	(388)	$	(579)	$	(707)	$	(1,058)
Chilled Water	$	770	$	1,199	$	1,244	$	1,229	$	1,340	$	1,386
Total Net Income	**$**	**10,113**	**$**	**9,738**	**$**	**2,763**	**$**	**(863)**	**$**	**(8,449)**	**$**	**(14,616)**
Return on Rate Base												
Electric		3.9%		3.0%		1.7%		1.0%		-0.3%		-1.1%
Water		1.8%		2.1%		1.7%		1.3%		1.0%		0.6%
Steam		1.5%		2.8%		2.4%		1.9%		1.7%		1.1%
Chilled Water		4.9%		6.5%		5.8%		6.8%		7.3%		7.6%
Total		**3.1%**		**2.9%**		**1.9%**		**1.3%**		**0.4%**		**-0.2%**
Unrestricted Cash Balance	**$**	**137,301**	**$**	**94,544**	**$**	**64,635**	**$**	**44,448**	**$**	**28,497**	**$**	**(4,608)**
Days Cash on Hand		**167**		**114**		**82**		**57**		**36**		**-5**
Debt Service Coverage		**1.94**		**1.98**		**2.08**		**1.99**		**1.72**		**1.61**

9

Annual Net Income by Utility
Without Forecast Rate Increases

Annual Net Income
in $000's



	2017	2018	2019	2020	2021	2022
Electric	$8,015	$5,588	$(536)	$(3,128)	$(10,059)	$(15,126)
Water	$2,288	$3,170	$2,443	$1,615	$978	$181
Steam	$(960)	$(219)	$(388)	$(579)	$(707)	$(1,058)
Chilled Water	$770	$1,199	$1,244	$1,229	$1,340	$1,386
Total	$10,113	$9,738	$2,763	$(863)	$(8,449)	$(14,616)

10

General Manager Peffley stated previously steam and water were heavily subsidized by electric, but the company has worked hard the past years toward having each utility stand on its own.

Capital Forecast FY 2017-FY2022 Six Year

CAPITAL PROJECTS SUMMARY
SIX YEAR FORECAST FY 2017 - FY 2022
BOARD OF WATER & LIGHT

Dollars in (000's)

UTILITY	2017	2018	2019	2020	2021	2022	Six-Year Total
ELECTRIC	36,807	69,869	49,103	37,353	29,042	41,283	263,457
WATER	9,843	11,139	11,040	7,824	5,739	5,922	51,506
STEAM	2,901	3,132	5,592	6,039	3,002	3,011	23,678
CHILLED WATER	180	494	158	162	166	166	1,324
COMMON	11,087	3,886	4,848	3,985	4,077	3,953	31,837
TOTAL BUDGET	60,818	88,521	70,741	55,363	42,025	54,335	371,802

LOCATION	2017	2018	2019	2020	2021	2022	Six-Year Total
ECKERT	3,280	187	208	110	113	113	4,011
ERICKSON	1,941	3,543	19,917	13,008	155	-	38,562
REO PLANT	144	35	2,500	3,025	-	-	5,704
T&D	41,643	75,762	40,102	33,857	36,985	49,854	278,202
DYE/CEDAR	3,039	4,805	2,917	1,128	445	165	12,499
CHILLER PLANT	42	340	-	-	-	-	382
OTHER	10,729	3,849	5,098	4,235	4,327	4,203	32,443
TOTAL BUDGET	60,818	88,521	70,741	55,363	42,025	54,335	371,802

12

Chair Ross questioned if there were items in the Capital Budget listed for next year that the Committee should be made aware of, given the media attention of the Central Substation. In response, General Manager Peffley stated there may be some tree trimming concerns and Ms. Shawa-DeCook added the installation of AMI smart meters may be an area of attention as well.

Ms. Shawa-DeCook provided information on the progress of the AMI smart meter implementations.

Already Completed and Next Steps

- FY 2017 Operating & Capital Budgets
  - Approved at May 24th Board meeting
  - Filed with the City Clerk within 10 days (June 3rd) after adoption in compliance with City Charter
- Accept as presented the Capital Forecast for FY 2017-2021 and submit to the Mayor prior to October 1
  - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1

Motion by Commissioner Price, Seconded by Commissioner Thomas to forward he proposed Resolution for the acceptance of the 2017-2022 Forecast to the full Board for consideration.

Action: Motion Carried.

Proposed Return on Assets Resolution

Chief Financial Officer Heather Shawa-DeCook spoke about the rate of return target suggesting that it is both realistic and achievable. She also stated that it is important to work toward achieving it to maintain infrastructure over a period of time. She said the forecast is such that if the key assumptions materialize, we should be able to achieve the target rate of return. The lengthy dialogue continued regarding the Return on Assets. Ms. Shawa-DeCook stated that she felt it is up to management to be fiscally responsible (from on the O&M side). Also, management should be responsible when laying out the budget, the cost control and making sure we are effective and efficient while maintaining our reliability and competitiveness. We want to make sure our efforts to reach our target rate of return include prudently managing our cost structure and not just focusing on rate increases to hit that return. It is important to have the right target number because there are impacts if the number is too low or too high.

Commissioner Nelson spoke about discussions from 2008 that involved the previous Chief Financial Officer regarding the Wisconsin Method vs. UFS and the coal inventory being an issue with its dwindling use as a fuel. Commissioner Nelson questioned if there was going to be a change in dynamics with the depleting coal inventory. In response to Commissioner Nelson's question Ms. Shawa-DeCook stated that she would get back to him with additional information.

In conclusion Chief Financial Officer Heather Shawa-DeCook stated that this matter would be brought before the Board for a yearly review.

Motion by Commissioner Price, Seconded by Commissioner Thomas to forward the proposed Resolution for the Return on Assets to the full Board for consideration.

Action: Motion Carried.

Finance Chair Ross welcomed and introduced new Board member, Stuart Goodrich. Mr. Goodrich stated that he is looking forward to serving on this Board.

Update on Management Responses to Internal Audits

Finance Chair Ross informed the new Commissioner that this report is a tracking tool designed to give us transparency and to ensure that everything Internal Auditor Phil Perkins identifies in his internal audits is actually followed up on and completed to the satisfaction of the Board of Commissioners and Internal Auditor.

Chief Financial Officer Heather Shawa-DeCook's update consisted of the following:

STATUS OF MANAGEMENT RESPONSES TO INTERNAL AUDITS
AS OF 6/30/16

In Accordance with Board Resolution #2014-07-05

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
Open Issues:					
12	Record Retention	Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.	March 2014	Human Resources	I-9 forms are on file for all active employees. An appropriate retention schedule for the asbestos bills of lading was determined and updated as part of the overall review of the Record Retention Schedule. An updated schedule was approved by the Committee of the Whole on 3/8/16. Filing for State Administrative Board approval occurred on 4/14/16. Currently in process is a response to the State's second round of questioning.
13	Record Retention	The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.	March 2014	Enterprise Content Management	Enterprise Content Management has reviewed the existing Record Retention Schedule with the appropriate departments and cataloged all proposed revisions. An updated schedule was approved by the Committee of the Whole on 3/8/16. Filing for State Administrative Board approval occurred 4/14/16. Currently in process is a response to the State's second round of questioning.
17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	August 2014	General Accounting	A General Accounting Procedure Manual is being developed, with expected completion by 12/31/16.
27	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	Work on identifying data on any mobile devices in need of encryption was able to begin once the mobile device usage guidelines (referred to under now-closed issue #26) were established. Completion by 9/30/16 is anticipated.
29	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Once any data accessed via mobile devices is determined to be in need of encryption (i.e., once issue #27 is addressed), it can be determined to what extent procuring and implementing software with remote cleaning capabilities would be cost-beneficial. It is anticipated that this issue will addressed by 9/30/16.
30	Management of Mobile Devices	Internal Audit recommended disabling data ports on mobile devices.	Sept 2015	Information Technology	Any needed disabling of data ports will be complete by 9/30/16.
33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	A successful stress test was performed April 13. Management is reviewing vendor capacity reports and modifying documented procedure to include requirements for a narrative of test results and formal business owner acceptance of test criteria and results. Completion targeted for 7/29/16.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
34	Training & Development	Internal Audit supports plans for a new database for tracking training and use of standardized criteria for periodic training course review and training of trainers, on an organization-wide basis.	Dec 2015	Organizational Training & Development	A new "LMS" database has been implemented and training on it is in the process of being rolled out, at a slower pace than originally anticipated, with completion now expected by 9/2/16.
37	Hiring Process *NEW*	Internal Audit has requested that an all-encompassing hiring policy be documented.	May 2016	Human Resources	An additional Board policy, one which addresses BWL hiring standards in their entirely, will be drafted by 12/31/16.
38	Hiring Process *NEW*	Internal Audit recommended updating a hiring checklist, documenting rationale for selected hires, and storing job files in electronic form.	May 2016	Human Resources	Management will update the hiring checklist, document rationale for selected hires, and store job files electronically by 12/31/16.
39	IT Change Management *NEW*	Internal Audit recommended IT change management policy and procedures be documented.	May 2016	Information Technology	The IT change management process has been refined and a standard form and workflow developed. A Change Advisory Board is following ITIL guidelines. Further development of written guidelines will be complete by 9/1/16.
41	IT Change Management *NEW*	Internal Audit recommended specifically addressing emergency IT changes in the IT change management process.	May 2016	Information Technology	IT has defined an emergency change and documented a process flow. IT is also developing a training plan and written guidelines, expected to be complete 9/1/16.
42	Selected CRT-MPSC-BWL Recom-mendations *NEW*	The Internal Auditor recommended annual updates to the Emergency Operations Plan.	May 2016	Emergency Management	Annual updates to the Emergency Operations Plan will be performed, effective immediately.
43	Selected CRT-MPSC-BWL Recom-mendations *NEW*	The Internal Auditor recommended formally tracking the corrective actions resulting from restoration exercises as such.	May 2016	Emergency Management	Corrective actions will be formally tracked, effective immediately.
Closed Issues (since April 2016 report):					
40	IT Change Management *NEW*	Internal Audit recommended a separate database or listing of IT changes.	May 2016	Information Technology	Additional information identified as being needed is now being captured in the existing IT ticketing system used to track changes.

As of 6/30: There are 14 Open issues (6 of which are new) and 1 closed issue.

Internal Auditor FY17 Audit Plan

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

Internal Auditor Status Update

- FY 2016 Audit Plan Progress Report
- Proposed FY 2017 Audit Plan
- Other Items

FY 2016 Audit Plan Progress Report

Engagements Completed:

1. Training & Development Audit
2. Selected CRT/MPSC/BWL Recommendations Audit
3. Hiring Process Audit
4. IT Change Management Audit
5. NERC-CIP Cybersecurity Compliance Audit
6. Surprise Cash Counts (2)
7. Employee Time Reporting Reviews (2)
8. Vehicle Time Reporting Reviews (2)

Engagement in Progress: Billing Audit (anticipate completion in August 2016)

Proposed FY 2017 Audit Plan - Background

Basis for plan:

1. Meetings with Executives and Staff to discuss risks and potential audit topics.
2. Risk assessments for each of 100-plus auditable activities at BWL.
3. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
4. Identified over 20 potential audits to perform in FY 2017 and beyond.

Proposed FY2017 Audit Plan - Background

Top 12 audits for FY 2017 (as discussed with senior management):

1. ***Performance Evaluation/Compensation/Merit Increases.***
2. ***Collections***
3. ***Post-Cyber Incident Review***
4. ***IT - Help/Service Desk***
5. ***New Service Order Mgt – Water***
6. ***Payroll***
7. ***Hiring Process Follow-up***
8. ***Training Follow-up***
9. ***Planned Projects***
10. ***IT – ID & Access Mgt- New and Terminated Employees***
11. ***Metering Services***
12. ***IT Security Policy – Data Classification & Controls***

Proposed FY 2017 Audit Plan

Planned Audits:	Estimated Hours
Performance Evaluation/Compensation	300
Collections	400
Post-Cyber Incident Review	300
IT Help/Service Desk Management	400
New Service Order Management - Water	300
Payroll Management	400
Follow-up – Hiring Process	100
Follow-up – Training & Development	100
Other Engagements:	
Surprise Cash Counts (2)	50
Time Reporting Reviews (2)	100
Vehicle Time Reporting	50
Other Consulting as Needed	100
Total Estimated Hours	**2,600**

Proposed FY 2017 Audit Plan, Cont'd

Available Resources:

Resource	Position	Available Hours
Phil Perkins	Director of Internal Audit	1,500
C. L. Moore & Associates	Augmented IA Services	900
Internal or External IT Audit Assistance	IT Audit Services	200
Total Hours		**2,600**

Finance Chair Ross mentioned the recent security incident and questioned whom Mr. Perkins would draw upon if he or his External Auditors did not have the expertise in conducting in-depth reviews as it relates to cyber. Mr. Perkins stated that he has had some preliminary discussions with outside firms regarding this specialized resource as well as looking to enhance his own limited expertise by taking some additional training in the cyber security arena.

Motion by Commissioner Price, Seconded by Thomas, to forward the Internal Auditor's FY 17 Audit Plan to the full board for consideration.

Action: Motion Carried.

Infernal Auditor Perkins stated that there were no changes to the Auditors Charter and asked that the Board approve the Internal Auditor's Charter as-is.

Motion by Commissioner Price, Seconded by Thomas, to forward the Internal Auditor's Charter as-is to the full board for consideration and approval.

Action: Motion Carried.

Background Discussion: Franchise Agreements

Finance Chair Ross cited a request from East Lansing for a franchise agreement and a share of revenue the BWL receives from East Lansing customers to introduce a background discussion on franchises and franchise fees. General Manager Peffley noted that a new request for a franchise fee would be directed to the Board, but a renewal of an existing franchise agreement would be negotiated by BWL staff and not brought to the Board.

Mark Matus, Director of Technical Services, provided background information on franchises and franchise fees and distributed a summary of franchise agreements along with franchise fees to the Board for its information. According to Mr. Matus, a franchise is required by the State Constitution and legislation to use the public places and conduct business in a local unit of government. He indicated that the Michigan Constitution limits franchises to 30 years duration. He indicated that a Foote Act franchise is an exception in that it is created by legislation and only applies to areas being served by a utility between 1905 and 1908. He also indicated that a Foote Act franchise could not be reversed by the act of legislation. According to Mr. Matus, water agreements are a little different. Although they are not entitled as franchises, they have the same provisions allowing for the use of public streets, alleys, etc.

In response to questions regarding the Foote Act, George Stojic, Executive Director of Strategic Planning indicated that the BWL could demonstrate service to East Lansing between 1905 and 1908 and was, therefore, entitle to a Foote Act franchise, but documentation from other areas was not available. He also indicated that Foote Act franchises do not expire.

General Manager Peffley indicated that the BWL needed clarification of East Lansing's request, and that it is seeking assistance from outside counsel to investigate the issue of a franchise with East Lansing.

Public Comment

Brad van Guilder, Sierra Club, read comments into the record stating his concerns regarding two items included in the 6 Year capital budget, the projection of installation of Dry Sorbent Injection pollution controls and the implementation of Smartgrid technology.

Other

General Manager Peffley thanked staff for how well the managed this weekend's storm, which was one of the largest summer storms in this area. 90% of customers were restored within 48 hours. He said they really worked hard on press releases and communication in general.

Several Commissioners expressed their appreciation for the communication during the recent storm.

Chair Ross asked for an update on the homeless hotel shelter's high bill issue due to a lack of meter reading. In response General Manager Peffley acknowledge that there was an error with the homeless hotel not getting their meter read in a timely manner; however the BWL has reached out to make arrangements to work with them to resolve the issue and get them on track.

Adjourn

On Motion by Commissioner Price, Seconded by Commissioner Thomas, the meeting adjourned at 7:20 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

PROPOSED RESOLUTION

Fiscal Year 2016 Audited Financial Statements of the Enterprise Fund and Pension Fiduciary Funds

RESOLVED, that the fiscal year 2016 Audited Financial Statements of the Board of Water and Light have been reviewed and are hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2016 Audited Financial Statements of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2016.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2016 Audited Financial Statements of the Board of Water and Light with the City of Lansing.

BOARD OF WATER AND LIGHT –
CITY OF LANSING, MICHIGAN

Lansing, Michigan

COMMUNICATION TO THOSE CHARGED WITH
GOVERNANCE AND MANAGEMENT

As of and for the Year Ended June 30, 2016

BOARD OF WATER AND LIGHT – CITY OF LANSING, MICHIGAN

TABLE OF CONTENTS

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

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

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

In planning and performing our audit of the financial statements of the Board of Water and Light – City of Lansing, Michigan and Pension Trust funds (collectively referred to as the BWL) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinions on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be control deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the BWL's internal control to be significant deficiencies:

> Controls Over Information Technology Systems and Procedures

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

INTERNAL CONTROL OVER INFORMATION TECHNOLOGY SYSTEMS AND PROCEDURES

During our review of BWL's control environment, certain items came to our attention that, in combination, rose to the level of a significant deficiency.

The following are our observations and recommendations:

> Unique User Authentication: Generic non-system accounts exist in several systems which are not tied to any specific user. Some of these accounts are privileged accounts or temporary accounts no longer in use. All financial applications should have a login and password which is unique for every user and the user name should not be shared by anyone. Each user should not have more than one username. Generic, shared, temporary, and system accounts should be removed. If a system account cannot be removed, it should be disabled.

> User Account Access Review: There is no review of network users against a list of active employees nor is an application user account access review systematically reviewed. User accounts and access should be reviewed once a year by management to ensure that only active employees have user accounts and users don't have access beyond their job responsibilities following the least privilege principle. Documentation of these reviews should be retained.

> System Security: BWL suffered a ransomware attack as the result of a successful phishing attack. Baker Tilly recommends that the company research and establish a long term user cyberattack awareness program with periodic surprise penetration testing to heighten user awareness.

Individually, these items would not have risen to the level of significant deficiency, however, in combination, we felt they were important enough to merit the attention of those charged with governance. We noted during final fieldwork that management had already started adding controls and procedures to remediate the control deficiencies discussed above.

OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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

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

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

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

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

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

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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

a. We typically will communicate with your top level of management unless you tell us otherwise.

b. We understand that the Board of Commissioners has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.

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

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

f. Are there other matters that you believe are relevant to the audit of the financial statements?

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

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

b. The detection or the possibility of fraud?

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

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

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

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

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

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

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

We have completed our audit of the financial statements of the Board of Water and Light – City of Lansing, Michigan and Pension Trust Funds (collectively referred to as the BWL) for the year ended June 30, 2016, and have issued our report thereon dated September 6, 2016. This letter presents communications required by our professional standards.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

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

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

Other Information in Documents Containing Audited Financial Statements

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated June 30, 2016.

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

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the BWL are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016. We noted no transactions entered into by the BWL during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

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

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

Financial Statement Disclosures

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

MANAGEMENT REPRESENTATIONS

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

INDEPENDENCE

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

Relating to our audit of the financial statements of the BWL for the year ended June 30, 2016, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the BWL in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the BWL other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- Financial statement preparation assistance

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

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

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the BWL's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the additional information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the additional information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

RESTRICTION ON USE

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

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

MANAGEMENT REPRESENTATIONS

Hometown People. Hometown Power.

September 6, 2016

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
Madison, WI 53718

We are providing this letter in connection with your audit of the financial statements of the Lansing Board of Water and Light as of June 30, 2016 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the business-type activities, and the fiduciary funds of the Lansing Board of Water and Light and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

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

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

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18. We have a process to track the status of audit findings and recommendations.

19. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

20. The entity has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

22. There are no:

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

    c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

    d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

    e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

23. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

    a. Financial statement preparation

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

24. The Lansing Board of Water and Light has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

25. The Lansing Board of Water and Light has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

26. The financial statements properly classify all funds and activities. All cash and bank accounts and all other properties and assets of the entity of which we are aware are included in the financial statements. All borrowings and financial obligations of the entity of which we are aware are included in the financial statements as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

27. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

28. The Lansing Board of Water and Light has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

29. Provisions for uncollectible receivables, if any, have been properly identified and recorded. Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

30. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.

31. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

32. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

33. We believe that the estimate made for the pollution remediation liability is in accordance with GASB 49 and reflects all known available facts at the time it was recorded.

34. Tax-exempt bonds issued have retained their tax-exempt status.

35. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.

36. We have appropriately disclosed the Lansing Board of Water and Light's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.

37. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

38. With respect to the supplementary information, (SI):

    a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

    b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

39. We assume responsibility for, and agree with, the findings of specialists in evaluating the self insurance reserves, OPEB liability and net pension assets and related deferrals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

Lansing Board of Water and Light

H Shawa-DeCook

Heather Shawa-DeCook
Chief Financial Officer

Scott Taylor
Finance Manager

Board of Water and Light - City of Lansing, Michigan

Financial Report

with Additional Information

As of and for the Years Ended June 30, 2016 and 2015

Contents

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Lansing Board of Water and Light and its fiduciary funds, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lansing Board of Water and Light's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lansing Board of Water and Light and its fiduciary funds as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Lansing Board of Water and Light and its fiduciary funds, as of and for the year ended June 30, 2015, were audited by other auditors whose report dated August 31, 2015, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

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

Additional Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The additional information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The fiscal 2016 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information as of and for the year ended June 30, 2016, is fairly stated in all material respects in relation to the basic financial statements as a whole. The fiscal 2015 information was subjected to the auditing procedures applied in the audit of those basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2015 basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the "BWL"). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for the years ended June 30, 2016 and 2015.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 65 percent of its retail and wholesale sales from existing generation assets 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 over 56,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving over 165 customers, and a chilled water facility and distribution piping system serving 19 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a 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 $51.3 and $65.9 million in fiscal years 2016 and 2015, respectively.

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

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

Condensed Financial Information (dollars in millions)

	As of June 30			% Change
	2016	2015	2014	2015 to 2016
Assets				
Utility plant	$ 690.7	$ 715.0	$ 699.3	(3.4)
Other assets	342.1	345.1	365.1	(0.9)
Total assets	1,032.8	1,060.1	1,064.4	(2.6)
Deferred Outflows of Resources	3.8	1.0	1.2	280.0
Liabilities				
Long-term liabilities	357.4	368.6	383.2	(3.0)
Other liabilities	57.1	65.2	69.5	(12.4)
Total liabilities	414.5	433.8	452.7	(4.4)
Deferred Inflows of Resources	26.0	32.1	30.4	(19.0)
Net Position				
Net investment in capital assets	367.1	380.7	345.4	(3.6)
Restricted for debt service	38.3	43.5	65.0	(12.0)
Unrestricted	190.7	171.0	172.2	11.5
Net position	**$ 596.1**	**$ 595.2**	**$ 582.6**	0.2

In 2016 the Board approved the closure of the Eckert Power Station by 2020 due to increasing operational costs, pending environmental regulations, and an uncertain future for coal-fired plants. As a result, the BWL recorded an impairment of $15.8 million.

Depreciation and impairment exceeded the amount of capital expenditures in fiscal year 2016, thereby decreasing utility plant by $24.3 million.

Condensed Financial Information (dollars in millions) (Continued)

	For the Year Ended June 30			% Change
	2016	2015	2014	2015 to 2016
Results of Operations				
Operating revenues	$ 360.9	$ 353.5	$ 348.0	2.1
Operating expenses	306.1	309.0	310.9	(0.9)
Nonoperating expense - Net	(53.9)	(31.9)	(38.4)	(69.0)
Changes in Net Position	**$ 0.9**	**$ 12.6**	**$ (1.3)**	(92.9)

Operating revenues for 2016 increased by $7.4 million primarily as a result of the November 2014 rate increase.

Nonoperating expense (net) increased by $22 million from fiscal year 2015. This was due primarily to the Eckert Power Station impairment and the write-off of the Customer Care Initiative (CARE) project.

Budget - The BWL commissioners approved a $294.6 million operating expense budget (excluding depreciation and impairment) for fiscal year 2016. Actual expenses (excluding depreciation and impairment) were $264.6 million or 10.2 percent less than budget. The net capital improvement budget was $65.1 million for fiscal year 2016 and actual net capital expenditures were approximately $48.7 million.

Financing Activities - For the years ended June 30, 2016 and 2015, there were no significant financing activities.

Statements of Net Position

	As of June 30	
	2016	2015
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 2 and 3)	$ 46,586,326	$ 52,752,941
Cash and cash equivalents (Notes 1 and 2)	53,637,717	55,925,376
Investments (Notes 1 and 2)	107,921,202	91,585,641
Accounts receivable - Net (Note 1)	23,168,659	22,014,605
Estimated unbilled accounts receivable (Note 1)	19,526,475	18,280,777
Inventories (Note 1)	25,067,737	25,860,743
Other	3,997,490	3,344,122
Total current assets	279,905,606	269,764,205
Other Assets		
Recoverable energy asset (Note 6)	2,302,845	4,652,068
Recoverable environmental remediation (Note 6)	11,483,569	18,616,005
Special deposit (Note 1)	8,535,000	11,380,000
Net pension asset (Note 8)	4,263,990	8,284,230
Other (Note 1)	10,265,098	8,123,949
Total other assets	36,850,502	51,056,252
Noncurrent Restricted Assets (Investments) (Notes 2 and 3)	25,319,385	24,263,950
Utility Plant (Notes 1 and 4)		
Water	302,165,777	296,802,952
Electric	774,429,214	804,947,799
Steam	68,557,331	67,510,134
Chilled water	33,998,140	33,622,140
Common facilities	88,752,432	87,132,519
Central Utilities Complex	76,079,000	76,079,000
Total	1,343,981,894	1,366,094,544
Less accumulated depreciation	668,868,675	665,849,130
Net	675,113,219	700,245,414
Construction in progress (Note 9)	15,583,201	14,781,967
Total utility plant	690,696,420	715,027,381
Total assets	1,032,771,913	1,060,111,788
Deferred Outflows of Resources -		
Bond refunding loss being amortized	835,838	1,032,273
Net pension deferred outflows (Note 8)	2,930,218	-
Total deferred outflows of resources	3,766,056	1,032,273

Statements of Net Position (Continued)

	As of June 30	
	2016	2015
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 28,679,951	$ 32,695,192
Current portion of long-term debt (Note 5)	11,642,389	13,299,345
Accrued payroll and related taxes	1,873,549	2,756,033
Customer deposits	2,304,426	2,678,145
Unearned revenue	-	1,127,500
Accrued compensated absences (Note 1)	4,310,921	4,092,441
Accrued interest (payable from restricted assets)	8,284,626	8,547,591
Total current liabilities	57,095,862	65,196,247
Compensated Absences - Less current portion (Note 1)	7,112,200	6,916,286
Other Long-term Liabilities		
Workers' compensation	2,200,000	2,200,000
Environmental remediation liability (Note 9)	7,853,780	10,172,203
Other	2,116,412	2,314,711
Total other long-term liabilities	12,170,192	14,686,914
Long-term Debt - Less current portion (Note 5)	338,105,373	347,044,294
Total liabilities	414,483,627	433,843,741
Deferred Inflows of Resources		
Recoverable revenue of Central Utilities Complex (Note 6)	5,071,934	7,241,153
Revenue intended to cover future costs (Note 6)	20,891,938	22,667,354
Net pension deferred inflows (Note 8)	-	2,201,407
Total deferred inflows of resources	25,963,872	32,109,914
Net Position		
Net investment in capital assets	367,103,881	380,667,622
Restricted for debt service (Note 3)	38,301,700	43,517,692
Unrestricted	190,684,889	171,005,092
Total net position	**$ 596,090,470**	**$ 595,190,406**

Statements of Revenues, Expenses, and Changes in Net Position

	For the Year Ended June 30	
	2016	2015
Operating Revenues (Note 1)		
Water	$ 38,730,602	$ 37,910,106
Electric	303,245,766	295,047,904
Steam	12,683,463	14,959,212
Chilled water	6,275,583	5,568,287
Total operating revenues	360,935,414	353,485,509
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	159,118,150	163,336,653
Maintenance	19,839,991	24,415,690
Transmission and distribution:		
Operating expenses	7,404,258	7,006,002
Maintenance	14,189,340	13,864,024
Administrative and general	64,007,040	61,297,460
Depreciation (Note 1)	41,541,561	39,104,343
Total operating expenses	306,100,340	309,024,172
Operating Income	54,835,074	44,461,337
Nonoperating Income (Expenses)		
Investment income	1,913,873	1,351,006
Other (expense) income	(4,588,160)	1,534,922
Impairment on Eckert Power Station (Note 4)	(15,763,520)	-
System capacity fee	3,351,392	9,223,075
Bonded debt interest expense	(14,861,300)	(14,995,574)
Amortization - Central Utilities Complex	(2,902,715)	(8,057,715)
Return on equity (Note 7)	(21,033,531)	(20,840,065)
Other interest expense	(51,049)	(49,691)
Total nonoperating expenses - Net	(53,935,010)	(31,834,042)
Net Income (Changes in Net Position)	900,064	12,627,295
Net Position - Beginning of year	595,190,406	582,563,111
Net Position - End of year	**$ 596,090,470**	**$ 595,190,406**

See Notes to Financial Statements.

Statements of Cash Flows

	For the Year Ended June 30	
	2016	2015
Cash Flows from Operating Activities		
Cash from customers:		
Water	$ 38,465,045	$ 38,932,520
Electric	302,838,331	293,138,111
Steam	12,824,305	15,711,107
Chilled water	6,757,204	5,425,898
Total cash from customers	360,884,885	353,207,636
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(131,855,507)	(140,537,274)
Other suppliers	(75,423,113)	(69,814,422)
Total cash paid to suppliers	(207,278,620)	(210,351,696)
Cash paid to employees	(57,655,263)	(63,947,564)
Return on equity (Note 7)	(21,033,531)	(20,840,065)
Cash from customer deposits	(373,719)	3,287
Interest on customer deposits	(51,049)	(49,691)
Net cash provided by operating activities	74,492,703	58,021,907
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	3,789,161	-
Planned, bonded, and annual construction	(44,161,432)	(59,916,047)
Principal payments on debt	(13,418,460)	(18,594,394)
System capacity fees	3,351,392	9,223,075
Interest on debt	(16,979,468)	(15,709,200)
Net cash used in capital and related financing activities	(67,418,807)	(84,996,566)
Cash Flows from Noncapital Financing Activities		
Proceeds from the sale of emissions allowances	-	36
Proceeds from the Belle River Project and other	-	8,972,944
Net cash provided by noncapital financing activities	-	8,972,980
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	76,742,427	160,938,876
Interest received	1,862,826	2,003,345
Purchase of investments	(94,133,423)	(139,581,937)
Net cash provided by investing activities	(15,528,170)	23,360,284
Net Increase in Cash and Cash Equivalents	(8,454,274)	5,358,605
Cash and Cash Equivalents - Beginning of year	108,678,317	103,319,712
Cash and Cash Equivalents - End of year	**$ 100,224,043**	**$ 108,678,317**

See Notes to Financial Statements.

Statements of Cash Flows (Continued)

	For the Year Ended June 30	
	2016	2015
Balance Sheet Classifications		
Restricted cash and cash equivalents	$ 46,586,326	$ 52,752,941
Cash and cash equivalents	53,637,717	55,925,376
Cash and Cash Equivalents - End of year	**$ 100,224,043**	**$ 108,678,317**

Reconciliation of Operating Income to Net Cash from Operating Activities	For the Year Ended June 30	
	2016	2015
Operating income	$ 54,835,074	$ 44,461,337
Adjustments to reconcile operating income to net cash from operating activities:		
Other reimbursements	1,535,783	-
Return on equity (Note 7)	(21,033,531)	(20,840,065)
Depreciation	41,541,561	39,104,343
Sewerage collection fees	929,243	1,088,442
Interest on customer deposits	(51,049)	(49,691)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	(1,154,054)	1,611,029
Unbilled accounts receivable (Note 1)	(1,245,698)	(1,122,971)
Inventories	793,007	(2,386,479)
Customer deposits	(373,719)	3,287
Special deposit	2,845,000	2,845,000
Net pension asset	4,020,240	2,904,472
Other	6,687,142	(5,484,222)
(Decrease) increase in liabilities and deferred inflows of resources:		
Accounts payable and other accrued expenses	(5,927,797)	(218,674)
Net pension asset deferrals	(5,131,625)	(4,941,799)
Other	(3,776,874)	1,047,898
Total adjustments	19,657,629	13,560,570
Net cash provided by operating activities	**$ 74,492,703**	**$ 58,021,907**

Non-cash capital and financing activities		
Decrease in environmental liability and related regulatory asset	$ 2,078,264	$ -
Impairment on Eckert Power Station	15,763,520	-
Write off of discontinued project	5,773,139	-

Pension Trust Funds - Statements of Net Position

	As of June 30	
	2016	2015
Assets		
Receivable - Investment interest receivable	$ 530,155	$ 305,573
Investments at fair value:		
Cash and money market trust fund	14,244,958	8,564,513
U.S. government obligations	29,023,448	22,121,544
Fixed income securities	39,216,076	32,582,122
Mutual funds	154,854,298	138,830,601
Stable value	34,193,741	31,844,948
Partnership	1,101,086	1,098,790
Common stock	114,508,909	162,370,016
Self-directed brokerage account	1,551,450	1,376,730
Participant notes receivable	3,749,371	3,888,351
Total investments	392,443,337	402,677,615
Net Position - Held in trust for pension and other employee benefits	**$ 392,973,492**	**$ 402,983,188**

See Notes to Financial Statements.

Pension Trust Funds - Statements of Changes in Net Position

	For the Year Ended June 30	
	2016	2015
Increases		
Investment income (loss):		
Net appreciation (depreciation)		
in fair value of investments	$ (11,813,954)	$ 886,489
Interest and dividend income	11,303,751	11,816,649
Net investment income (loss)	(510,203)	12,703,138
Employer contributions	15,084,965	15,219,154
Participant rollover contributions	2,026,588	1,345,481
Interest from participant notes receivable	150,624	155,010
Other	-	152,128
Total increases	16,751,974	29,574,911
Decreases		
Retiree benefits paid	25,264,964	28,168,455
Loan defaults	186,801	125,254
Participants' note and administrative fees	1,309,905	1,829,184
Total decreases	26,761,670	30,122,893
Change in Net Position Held in Trust	(10,009,696)	(547,982)
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	402,983,188	403,531,170
End of year	**$ 392,973,492**	**$ 402,983,188**

Note 1 - Significant Accounting Policies

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

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

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

Proprietary fund includes the enterprise fund (which provides goods or services to users in exchange for charges or fees).

Fiduciary funds

1. The Defined Contribution Plan and Defined Benefit Plan, which accumulate resources for benefit payments to retirees

2. The VEBA, which accumulates resources for future retiree health care payments to retirees

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

Note 1 - Significant Accounting Policies (Continued)

The BWL follows the accounting and reporting requirements of GASB 62, paragraphs 476-500, which require that the effects of the ratemaking process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, the BWL records various regulatory assets and liabilities to reflect the regulator's actions (see Note 6). Management believes that the BWL meets the criteria for continued application of GASB 62 paragraphs 476-500, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

In February 2015, the GASB issued statement No. 72 - Fair Value Measurement and Application. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes as well as to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard was implemented effective July 1, 2015.

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

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

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

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

Note 1 – Significant Accounting Policies (Continued)

Specific Balances and Transactions

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between two willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

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

	Carrying Value	
	2016	2015
Designated purpose:		
Coal inventory fluctuation	$ 4,702,092	$ 4,598,714
Litigation, environmental, and uninsured losses	19,009,147	18,589,552
Future water facilities	3,831,125	3,745,990
Subtotal	27,542,364	26,934,256
Special purpose - Future construction	80,378,838	64,651,385
Total	$ 107,921,202	$ 91,585,641

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 2016 and 2015 are as follows:

	2016	2015
Customer receivables	$ 19,209,535	$ 18,491,745
Sewerage collections	2,295,881	2,159,867
Miscellaneous	3,163,243	3,362,993
Less allowance for doubtful accounts	(1,500,000)	(2,000,000)
Net	$ 23,168,659	$ 22,014,605

Special Deposit – The BWL contracted with Consumer's Energy to install a new gas pipeline in 2011 and at that time funded construction of this pipeline and incurred $15,900,000. The BWL will subsequently be reimbursed for all but $1,675,000 of those costs provided minimum consumption requirements are met over the subsequent five-year period beginning in 2015. Based on current projections, the actual consumption is expected to exceed the minimum requirements. The long-term other asset recorded was $8,535,000 and $11,380,000 in 2016 and 2015, respectively.

Note 1 – Significant Accounting Policies (Continued)

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

	2016	2015
Coal	$ 10,979,780	$ 11,275,408
Gas	706,758	936,671
Materials and supplies	13,381,199	13,648,664
Total	$ 25,067,737	$ 25,860,743

Utility Plant – The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed. Capital assets are generally defined as assets with an initial, individual cost of more than $2,000 and an estimated life in excess of one year.

Depreciation – Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with GASB 62 paragraphs 476-500. The resulting provisions for depreciation in 2016 and 2015, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

		Average Rate (Percent)	
	Life (Years)	2016	2015
Classification of utility plant:			
Water	4-100	1.8	1.8
Electric	4-50	3.6	3.4
Steam	5-50	3.5	3.5
Chilled water	5-50	3.6	3.4
Common facilities	4-50	4.8	4.1
Central Utilities Complex	15	3.8	6.7

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

Note 1 – Significant Accounting Policies (Continued)

Accrued Compensated Absences – The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be $11,423,121 and $11,008,727 as of June 30, 2016 and 2015, respectively.

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

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

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

Note 1 – Significant Accounting Policies (Continued)

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted for Debt Service** – Consists of net position with constraints placed on their use by revenue bond resolution.

- **Unrestricted** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

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

Other Assets – Other assets consists of the net OPEB asset described in Note 8 and a deposit held with the Michigan Public Power Agency (MPPA) related to the Belle River project.

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

Note 1 – Significant Accounting Policies (Continued)

Unbilled Accounts Receivable and Revenue – Unbilled accounts receivable at June 30, 2016 and 2015 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 $8,496,848 and $7,956,814 in 2016 and 2015, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

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

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

Note 2 – Cash, Investments, and Fair Value Disclosure

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

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

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

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

BWL’s Cash and Investments (exclusive of fiduciary funds)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At June 30, 2016 and 2015, the BWL had $1,605,366 and $1,666,654, respectively, of bank deposits that were uninsured and uncollateralized. The BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

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

At June 30, 2016, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	$ 92,921,202	Counterparty

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

At June 30, 2015, 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	$ 91,596,540	Counterparty

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

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

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

At June 30, 2015, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1 year	1-5 years	6-10 years
Pooled investment funds	$ 71,700,404	$ 71,700,404	$ -	$ -
Mutual funds	150,565	150,565	-	-
U.S. government or agency bond or note	91,435,063	29,617,760	61,817,303	-
Totals	$ 163,286,032	$ 101,468,729	$ 61,817,303	$ -

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

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

As of June 30, 2016, 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	$ 47,145,988	AAA	S&P
U.S. treasury bonds	38,056,849	AA+	S&P
U.S. agency bonds/notes	45,283,538	AA+	S&P
Commercial paper	7,447,318	A1/A1+	S&P
Supra national agency bonds	2,008,658	AAA	S&P
Mutual funds	124,840	AAAM	S&P

As of June 30, 2015, 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	$ 71,850,969	AAA	S&P
Mutual funds	150,565	AAAM	S&P
U.S government or agency bonds/notes	91,435,063	AA+	S&P

Concentration of Credit Risk – As of June 30, 2016 and 2015 no more than 5 percent of the BWL's investments are invested in any one issuer or commercial paper or bonds/notes not guaranteed by the U.S. government.

Fair Value

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

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

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

Enterprise funds

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

	June 30, 2015			
Investment	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	$ -	$ 49,791,535	$ -	$ 49,791,535
Supra national agency bonds	-	503,519	-	503,519
Federal Agency Collateralized Mortgage Obligation	-	351,881	-	351,881
Federal Agency Bond/Note	-	40,788,128	-	40,788,128
Mutual funds	-	150,565	-	150,565
Total investments by fair value level	$ -	$ 91,585,628	$ -	$ 91,585,628

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

Fiduciary Fund Investments

Interest Rate Risk - Pension Trust Funds

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

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

At June 30, 2015, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	$ 22,121,544	11.91
Money market trust funds	7,958,648	Less than 1 year
Corporate bonds	32,582,122	14.13

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

Credit Risk - Pension Trust Funds

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

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

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

As of June 30, 2015, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 138,830,601	Not Rated	Not Rated
Government or agency bond	22,121,544	Not Rated	Not Rated
Stable value	31,844,948	AA	S&P
Corporate bonds	3,509,599	AAA	S&P
Corporate bonds	12,528,632	AA+	S&P
Corporate bonds	709,117	AA	S&P
Corporate bonds	441,815	AA-	S&P
Corporate bonds	1,424,862	A+	S&P
Corporate bonds	2,614,518	A	S&P
Corporate bonds	3,513,111	A-	S&P
Corporate bonds	2,559,638	BBB+	S&P
Corporate bonds	1,982,318	BBB	S&P
Corporate bonds	1,195,013	BBB-	S&P
Corporate bonds	262,236	BB+	S&P
Corporate bonds	109,150	BB	S&P
Corporate bonds	279,092	BB-	S&P
Corporate bonds	102,069	B+	S&P
Corporate bonds	141,348	B	S&P
Corporate bonds	574,676	B-	S&P
Corporate bonds	508,305	CCC	S&P
Corporate bonds	126,625	CC	S&P

Fair Value – Pension Trust Funds

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

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015:

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

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

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

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

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

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016 and 2015:

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

	June 30, 2015			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ 193,939	$ 8,370,574	$ -	$ 8,564,513
U.S. government obligations	-	22,121,544	-	22,121,544
Fixed income securities	-	32,582,122	-	32,582,122
Mutual funds	130,790,091	2,819,994	-	133,610,085
Partnership	-	-	1,098,790	1,098,790
Common Stocks	162,370,016	-	-	162,370,016
Self-directed brokerage account	1,376,730	-	-	1,376,730
Total investments by fair value level	294,730,776	65,894,234	1,098,790	361,723,800
Investments measured at the net asset value (NAV)				
Stable value				31,844,948
Guaranteed Lifetime Income				5,220,516
Total investments measured at fair value				$ 398,789,264

Note 3 – Restricted Assets

Restricted assets are required under the 2008A, 2011A, 2012A, and 2013A 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, 2016	Carrying Value 2016	Carrying Value 2015
Current:			
Operations and Maintenance Fund	$ 27,416,700	$ 80,922,920	$ 88,301,618
Bond and Interest Redemption Fund	19,169,626	19,301,123	19,689,041
Total current	46,586,326	100,224,043	107,990,659
Noncurrent:			
Bond Reserve Fund	24,263,950	25,319,385	24,951,608
Total noncurrent	24,263,950	25,319,385	24,951,608
Total	$ 70,850,276	$ 125,543,428	$ 132,942,267

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the year ended June 30, 2016 and 2015. The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** – By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.

Note 3 – Restricted Assets (Continued)

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

- **Bond Reserve Fund** – Shall include sufficient funds to cover the maximum annual principal and interest requirements of the 2008A, 2011A, 2012A, and 2013A Revenue Bonds. The Nonarbitrage and Tax Compliance Certification stipulates that the amount in the fund shall be valued at amortized cost to meet this requirement. As of June 30, 2016, the cost basis in the fund was $24,936,608.

Note 4 – Utility Plant

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2016 and 2015:

Capital Asset Activity for Year Ended June 30, 2016

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

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2016

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

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

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

Note 4 – Utility Plant (Continued)

Capital Asset Activity for Year Ended June 30, 2015

	Capital Assets FY Start	Transfers	Acquisition	Retirement	Capital Assets FY End
Water	$ 288,627,287	$ 25,014	$ 9,096,693	$ (946,042)	$ 296,802,952
Electric	773,262,520	51,658	34,925,022	(3,291,401)	804,947,799
Steam	64,685,056	-	3,136,196	(311,118)	67,510,134
Chilled	32,917,461	-	704,679	-	33,622,140
Common	75,026,577	(76,672)	12,628,678	(446,064)	87,132,519
CUC	76,079,000	-	-	-	76,079,000
Total	$ 1,310,597,901	$ -	$ 60,491,268	$ (4,994,625)	$ 1,366,094,544

Accumulated Depreciation for Year Ended June 30, 2015

	Accum. Depr. FY Start	Depreciation Transfer	Depr. / Amort. for Year	Depreciation Retirement	Accum. Depr. FY End
Water	$ (84,984,612)	$ (25,014)	$ (5,147,689)	$ 522,729	$ (89,634,586)
Electric	(420,474,747)	3,099	(27,158,634)	2,254,187	(445,376,095)
Steam	(12,551,842)	-	(2,313,839)	88,162	(14,777,519)
Chilled	(7,887,640)	-	(1,140,043)	-	(9,027,683)
Common	(37,987,471)	21,915	(3,344,139)	211,580	(41,098,115)
CUC	(60,863,199)	-	(5,071,933)	-	(65,935,132)
Total	$ (624,749,511)	$ -	$ (44,176,277)	$ 3,076,658	$ (665,849,130)

Non-depreciable assets – Included in the table above are non-depreciable assets of $1,193,788 for water, $6,793,620 for electric, $124,224 for steam and $412,339 for common facilities.

Note 5 - Long-term Debt

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

	2016	2015
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2013A, due in annual principal installments beginning July 1, 2013 through July 1, 2026, plus interest at rates ranging from 2.00% to 5.00%. Original amount of issue $21,085,000.	$ 19,450,000	$ 20,830,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2012A, due in annual principal installments beginning July 1, 2013 through July 1, 2018, plus interest at rates ranging from 2.00% to 5.00%. Original amount of issue $17,370,000.	15,735,000	16,355,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bonds, Series 2011A, due in annual principal installments beginning July 1, 2015 through July 1, 2041, plus interest at rates ranging from 3.00% to 5.50%. Original amount of issue $250,000,000.	249,995,000	250,000,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2009A, due in annual principal installments due serially through July 1, 2016, plus interest at a rate of 5.34%. Original amount of issue $46,255,000.	3,030,000	11,215,000
Water Supply Utility System Revenue Bonds, Series 2008A, due serially beginning July 1, 2012 and continuing through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%. Original amount of issue $40,000,000.	39,165,000	39,985,000

Note 5 - Long-term Debt (Continued)

	2016	2015
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%. Orignial amount of issue $13,225,385.	$ 8,932,605	$ 9,554,048
Granger III Corporation for ash hauling services due in monthly installments ranging from $150,000 to $250,000	-	1,650,712
City of Lansing Agreement for the Enhancement of the Flood warning system $10,000 annually with final payment in 2016.	-	10,000
Charter Township of Lansing Special Assessment pertaining to the Groesbeck II Park Drain. Due in annual installments ranging from $132,000 to $291,000 with final payment in 2044.	3,662,856	-
Total	339,970,461	349,599,760
Less current portion	(11,642,389)	(13,299,345)
Plus unamortized premium	9,777,301	10,743,879
Total long-term portion	$ 338,105,373	$ 347,044,294

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

Note 5 - Long-term Debt (Continued)

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

	Principal	Interest	Total
2017	$ 11,642,389	$ 16,650,196	$ 28,292,585
2018	8,986,310	16,184,020	25,170,330
2019	9,371,241	15,777,019	25,148,260
2020	7,839,147	15,391,183	23,230,330
2021	8,183,523	15,047,557	23,231,080
2022-2026	46,499,053	69,094,488	115,593,541
2027-2031	58,932,557	56,516,580	115,449,137
2032-2036	73,110,103	40,293,976	113,404,079
2037-2041	93,251,527	19,231,686	112,483,213
2042-2044	22,154,611	5,951,755	28,106,366
Total	$ 339,970,461	$ 270,138,460	$ 610,108,921

The 2008A, 2011A, 2012A, and 2013A 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, 2016, the balance of this reserve account was $25,319,385 (see Note 3). The 2009A bonds were a private placement issue and have no reserve requirement.

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

Note 5 - Long-term Debt (Continued)

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

The Series 2011A Bond is payable in annual installments in the years 2015 to 2022, inclusive, and shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after July 1, 2022 shall be subject to redemption at the option of the BWL on or after July 1, 2021 as a whole or in part at any time and by lot within a maturity at par plus interest accrued to the redemption date.

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

The Series 2008A Bonds maturing in the years 2012 to 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 long-term debt activity for the year ended June 30, 2016 is as follows:

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

Note 5 - Long-term Debt (Continued)

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds total $593,866,251. During the current year, net revenues of the BWL were $57,353,974 compared to the annual debt requirements of $25,871,300.

The long-term debt activity for the year ended June 30, 2015 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	$ 364,250,463	$ 14,884,003	$ 379,134,466
Additions	-	-	-
Reductions	(15,121,594)	(3,669,233)	(18,790,827)
Ending balance	$ 349,128,869	$ 11,214,770	$ 360,343,639
Due within one year	$ 11,010,000	$ 2,289,345	$ 13,299,345

Note 6 - Costs/Credits Recoverable in Future Years

Central Utilities Complex

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under the regulatory basis of accounting as per GASB 62. The BWL has recorded recoverable (revenue) amortization of $(5,071,934) and $(7,241,153) at June 30, 2016 and 2015, 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 recoverable (revenue) amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end.

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

Environmental Remediation

The GASB 49 environmental remediation liability related to a landfill site operated by the BWL was approved for regulated entity accounting under GASB 62 during the year ended June 30, 2004. As of June 30, 2016 and 2015, $20,848,000 in total costs has been recoverable as a regulatory asset.

As of June 30, 2016 and 2015, the amounts remaining to be recovered in rates were $0 and $37,756, 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, the GASB 49 environmental remediation liability related to a second landfill was approved for regulated entity accounting under GASB 62. The balance of the regulatory asset at June 30, 2016 and 2015 was $7,076,982 and $14,176,684 respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009, regulatory accounting as per GASB 62 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2016 and 2015 for additional sites was $4,406,587 and $4,401,565, respectively.

Recoverable Cost Adjustments

During the year ended June 30, 2005, the Board of Commissioners approved the use of regulatory accounting as per GASB 62 in accounting for the BWL's energy cost adjustment (ECA), power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electricity, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in recoverable assets of $2,302,845 and $4,652,068 at June 30, 2016 and 2015, 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.

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

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

During the year ended June 30, 2010, the Board of Commissioners approved the implementation of regulatory accounting as per GASB 62 to account for Public Act 295 of 2008 (PA. 295). PA. 295 set forth requirements for all Michigan utilities to meet the new renewable energy standards and undertake energy optimization programs. As a municipally owned electric utility, the BWL was required to file a proposed energy plan with the Michigan Public Service Commission (MPSC) and this plan was approved on July 1, 2009. These changes will affect the amount to be billed to electric customers. This resulted in deferred inflow of resources of $6,217,249 and $6,953,049 as of June 30, 2016 and 2015, respectively.

Chiller Plant

During the year ended June 30, 2010, the BWL chose to use regulatory accounting as per GASB 62 to recognize the contribution in aid of construction (CIAC) for the development of a new chilled water plant. This resulted in recoverable inflow of resources of $1,982,444 and $2,202,716 as of June 30, 2016 and 2015, respectively. The BWL will recognize this as revenue monthly over the life of the new chilled water plant to offset depreciation expense.

Wise Road

During the year ended June 30, 2012, the BWL chose to use regulatory accounting as per GASB 62 to recognize the insurance proceeds for the damaged equipment at the Wise Road Water Conditioning Plant (see Note 13). The remaining recoverable inflow of resources as of June 30, 2016 and 2015 was $12,692,245 and $13,511,589 respectively.

Note 7 – Transactions with the City of Lansing, Michigan

Operations – The BWL recognized revenue of $8,445,860 and $9,834,276 in 2016 and 2015, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of $849,884 and $964,302 in 2016 and 2015, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of $929,243 and $1,087,668 in 2016 and 2015, respectively, included in other income.

Return on Equity – Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002, the formula to calculate the amount owed to the City for return on equity will also include wholesale revenue generated from the BWL's electric, water, steam, and chilled water utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City $21,033,531 in 2016 and $20,840,065 in 2015 of operational cash flow in excess of debt service requirements.

Note 8 – Retirement Plans

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

Note 8 - Retirement Plans (Continued)

Defined Benefit Plan

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

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

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

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2016 and 2015.

Employees Covered by Benefit Terms - At February 28, 2016 and 2015 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	2016	2015
Inactive plan members or beneficiaries currently receiving benefits	382	398
Inactive plan members entitled to but not yet receiving benefits	7	8
Active plan members	11	14
Total	**400**	**420**

Note 8 – Retirement Plans (Continued)

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

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

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

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2015 and 2016. Plan documents do not require participant contributions.

Note 8 – Retirement Plans (Continued)

Net Pension Asset – The components of the net pension asset of the BWL at June 30, 2016 and June 30, 2015 were as follows (in thousands):

	2016	2015
Total pension liability	$ 61,178	$ 65,395
Plan fiduciary net position	65,442	73,679
Plan's net pension asset	$ (4,264)	$ (8,284)
Plan fiduciary net position, as a percentage of the total pension liability	106.97%	112.67%

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

The BWL has chosen to use June 30, 2015 as its measurement date for fiscal year 2015. The June 30, 2015 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation as of February 28, 2015, which used update procedures to roll forward the estimated liability to June 30, 2015.

Note 8 – Retirement Plans (Continued)

Changes in the net pension asset during the measurement years were as follows:

Changes in Net Pension Asset	Increase (Decrease) Total Pension Liability	Increase (Decrease) Plan Net Position	Net Pension Asset
Balance at June 30, 2014	$ 69,341	$ 80,530	$ (11,189)
Changes for the year:			
Service cost	274	-	274
Interest	4,919	-	4,919
Differences between expected	-	-	-
and actual experience	(1,093)	-	(1,093)
Net investment income	-	1,771	(1,771)
Benefit payments, including refunds	(8,046)	(8,046)	-
Administrative expenses	-	(576)	576
Miscellaneous other changes	-	-	-
Net changes	(3,946)	(6,851)	2,905
Balance at June 30, 2015	$ 65,395	$ 73,679	$ (8,284)
Changes for the year:			
Service cost	223	-	223
Interest	4,625	-	4,625
Differences between expected	-	-	-
and actual experience	299	-	299
Changes in assumptions	(1,468)	-	(1,468)
Net investment income	-	47	(47)
Benefit payments, including refunds	(7,896)	(7,896)	-
Administrative expenses	-	(388)	388
Miscellaneous other changes	-	-	-
Net changes	(4,217)	(8,237)	4,020
Balance at June 30, 2016	$ 61,178	$ 65,442	$ (4,264)

Note 8 – Retirement Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2016, the BWL recognized pension expense of $(1,111,385). At June 30, 2016, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

For the year ended June 30, 2015, the BWL recognized pension expense of $(2,037,327). At June 30, 2015, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ (2,201,407)

Note 8 – Retirement Plans (Continued)

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

Years Ending June 30		
2017	$	586,044
2018		586,044
2019		586,044
2020		586,044
2021		586,042
Thereafter	$	-

Actuarial Assumptions – The total pension liability in the June 30, 2016 and June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	2016 - 3.5%; 2015 - 6.44 - 10.26%
Investment rate of return	7.50%

Mortality rates were based on the Healthy and Disabled, RP-2014 Mortality Table with MP-2015 Improvement Scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 11 active participants in fiscal year 2016 and 14 active participants in fiscal year 2015, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Note 8 – Retirement Plans (Continued)

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

Projected Cash Flows

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

The long-term expected rate of return on Defined Benefit Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2016 and 2015 for each major asset class included in the Defined Benefit Plan's target asset allocation, as disclosed in the Defined Benefit Plan's financial statements, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Fixed Income	2.00%
Domestic equity	6.40%
International equity	6.80%

Note 8 - Retirement Plans (Continued)

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

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

The following presents the net pension asset of the BWL at June 30, 2015, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate (7.50 %)	1% Increase (8.50%)
Net pension asset of the BWL (in thousands)	$ (3,053)	$ (8,284)	$ (13,128)

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

Note 8 – Retirement Plans (Continued)

Defined Contribution Plan

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

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

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

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 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. No participant contributions are required.

During the years ended June 30, 2016 and 2015, the BWL contributed $5,661,884 and $5,548,360, respectively. The BWL's contributions are recognized in the period that the contributions are due.

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

Note 8 – Retirement Plans (Continued)

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

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

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

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 715 participants eligible to receive benefits at June 30, 2016 and 725 participants eligible at June 30, 2015.

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, 2016 and 2015, the cost to BWL of maintaining the Retiree Benefit Plan was $9,423,081 and $9,670,794, of which respectively, was incurred as direct costs of benefits.

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

Note 8 – Retirement Plans (Continued)

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

The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used range from 2.5 to 9.0 percent for the year ended June 30, 2016 and 5.0 to 9.0 percent for the year ended June 30, 2015.

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/14	$ 9,202	$ 9,268	101%	$ (267)
6/30/15	5,765	9,671	168%	(4,186)
6/30/16	5,828	9,423	162%	(7,781)

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

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

Note 8 – Retirement Plans (Continued)

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

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

<u>Other Postretirement Benefits</u>

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, which is administered by a trustee, the ICMA Retirement Corporation. The BWL makes contributions of $1,000 annually for the employees as of January 1 of each year, during the month of January. The BWL also will match employee contributions at one dollar for every one dollar up to $1,250 in a calendar year.

Note 9 – Commitments and Contingencies

At June 30, 2016 and 2015, the BWL has two letters of credit in the amounts of $1,000,000 and $817,220 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

Note 9 – Commitments and Contingencies (Continued)

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL is currently in the process of applying for approval from the State of Michigan to remediate the sites. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of $7,853,780 and $10,172,203 for the years ended June 30, 2016 and 2015, respectively. Certain remediation activities have commenced and are in progress. The landfill sites are no longer receiving waste products. Landfill closure and postclosure requirements are associated with the Michigan Department of Environmental Quality. Annual postclosure costs of these landfill sites are not expected to exceed $380,000 annually and are included in the liability above. Estimates will be revised as approvals are received from the State. In accordance with the regulatory basis of accounting as per GASB 62 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6).

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

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2016 and 2015 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling $11,858,000 through December 31, 2018. In addition, the BWL has entered into contracts for the rail services related to shipping the coal. Commitments for future rail services to be purchased are approximately $5,380,000 through December 2016.

Note 9 – Commitments and Contingencies (Continued)

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete various projects is approximately $131,593,000 and $75,074,000 at June 30, 2016 and 2015, respectively, including commitments on existing construction contracts approximating $5,449,000 and $9,173,000 at June 30, 2016 and 2015, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets. There are additional commitments on projects in the process of being constructed that are not included above.

Sierra Club v BWL & Environmental Protection Agency (EPA) Notice of Violation

In June of 2014, the Sierra Club, an environmental special interest group, provided written notice to the BWL of their intent to file a complaint against the BWL asserting violation of the Clean Air Act (Act). Similar to the Sierra Club's allegations, the EPA served the BWL with a Notice of Violation.

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

Note 10 – Power Supply Purchase

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

Note 10 - Power Supply Purchase (Continued)

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

Year	Debt Service and Capital	Estimated Fixed Operating Costs	Total Required
2017	$ 24,957,228	$ 15,005,514	$ 39,962,742
2018	16,603,644	15,466,998	32,070,642
Total	$ 41,560,872	$ 30,472,512	$ 72,033,384

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 2016 and 2015 of $50,425,873 and $53,051,047, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

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

The BWL has entered into agreements with Granger Electric Company to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028 and September 30, 2028. The minimum power to be purchased in the contract is 3.2 megawatts, with the option to purchase up to 12 megawatts depending on capacity. The price of the electricity is based on the BWL's cost of electricity generation. The total amount of electricity expected to be purchased for the remainder of these contracts is estimated at $94,000,000.

Note 11 - Estimated Liability for Excess Earnings on Water Supply and Electric Utility System Revenue Bonds

In accordance with Section 148(f)(2) of the IRC of 1986, as amended, the BWL is required on each anniversary date (July 1) of the Water Supply, Electric Utility, and Steam Utility System Revenue Bonds, Series 2008A, 2011A, 2012A, and 2013A 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, 2016 and 2015. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

Note 12 - Risk Management and Insurance

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

Note 12 - Risk Management and Insurance (Continued)

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

	Workers' Compensation			Health Insurance		
	2016	2015	2014	2016	2015	2014
Unpaid claims - Beginning of year	$ 2,200,000	$ 2,000,000	$ 2,000,000	$ 1,188,172	$ 1,637,276	$ 1,590,814
Incurred claims, including claims incurred but not reported	348,038	554,773	864,854	13,797,887	20,853,299	18,340,955
Claim payments	(348,038)	(354,773)	(864,854)	(13,818,593)	(21,302,403)	(18,294,493)
Unpaid claims - End of year	$ 2,200,000	$ 2,200,000	$ 2,000,000	$ 1,167,466	$ 1,188,172	$ 1,637,276

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

Note 13 - Wise Road Reconstruction Project

In July 2011, the Wise Road water treatment plant was damaged by a chemical spill. The piping and electrical systems were damaged and are being replaced or repaired. The reconstruction costs were $19,492,299, of which $18,151,549 was recouped from the insurance carrier.

Note 14 – Upcoming Pronouncements

In June 2015, the GASB issue two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans other than Pension Plans,* addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently requirement statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be require to include in the financial statement more extensive footnote disclosures and requirement supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the BWL will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The BWL is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

Required Supplemental Information

Board of Water and Light - City of Lansing, Michigan

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

	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*
Total Pension Liability										
Service cost	$ 224	$ 274	$ 349	$ 407	$ -	$ -	$ -	$ -	$ -	$ -
Interest	4,625	4,919	4,751	5,085	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	299	(1,093)	964	(1,716)	-	-	-	-	-	-
Changes in assumptions **	(1,468)	-	4,538	-	-	-	-	-	-	-
Benefit payments, including refunds	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-
Net Change in Total Pension Liability	(4,217)	(3,946)	2,061	(4,001)	-	-	-	-	-	-
Total Pension Liability - Beginning of year	65,395	69,341	67,280	71,281	-	-	-	-	-	-
Total Pension Liability - End of year	61,178	65,395	69,341	67,280	-	-	-	-	-	-
Plan Fiduciary Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	47	1,771	14,243	10,170	-	-	-	-	-	-
Administrative expenses	(388)	(576)	(596)	(536)	-	-	-	-	-	-
Benefit payments, including refunds	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Plan Fiduciary Net Position	(8,237)	(6,850)	5,106	1,857	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of year	73,679	80,529	75,424	73,567	-	-	-	-	-	-
Plan Fiduciary Net Position - End of year	65,442	73,679	80,530	75,424	-	-	-	-	-	-
BWL Net Pension Asset - Ending	**$ (4,264)**	**$ (8,284)**	**$ (11,189)**	**$ (8,144)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Fiduciary Net Position as a % of Total Pension Liability	106.97%	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	772	1,018	1,225	1,684	-	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(552%)	(814%)	(913%)	(484%)	- %	- %	- %	- %	- %	- %

*GASB Statement No. 68 was implemented as of June 30, 2015. Information from 2006 - 2012 is not available and this schedule will be presented on a prospective basis.
**Related to change in the mortality assumption from the RP2000CH table projected to 2018 with Scale AA to the RP-2014 table projected generationally with Scale MP-2015

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ 86	$ 2,109	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	86	2,109	-	-	-
Contribution Deficiency (Excess)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Employee Payroll	772	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162	3,391
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	3.59%	79.29%	- %	- %	- %

Required Supplemental Information (unaudited)
Retiree Benefit Plan and Trust Schedule
For the Years Ended June 30, 2016 and 2015

The schedule of funding progress is as follows:

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

Additional Information

Income Available for Revenue Bond Debt Retirement

	For the Year Ended June 30	
	2016	2015
Income - Before capital contributions per statement of revenues, expenses, and changes in net position	$ 900,064	$ 12,627,295
Adjustments to Income		
Depreciation and impairment	57,305,081	39,104,343
Interest on long-term debt:		
Notes	51,049	49,691
Revenue bonds	14,861,300	14,995,574
Total additional income	72,217,430	54,149,608
Income Available for Revenue Bonds and Interest Redemption	**$ 73,117,494**	**$ 66,776,903**
Debt Retirement Pertaining to Revenue Bonds		
Principal	$ 10,885,000	$ 11,010,000
Interest	16,569,252	17,095,181
Total	**$ 27,454,252**	**$ 28,105,181**
Percent Coverage of Revenue Bonds and Interest Requirements	**266**	**238**

	Combined		Water	
	2016	2015	2016	2015
Operating Revenues				
Water	$ 38,730,602	$ 37,910,106	$ 38,730,602	$ 37,910,106
Electric:				
Retail	278,489,705	266,878,053	-	-
Sales for resale	24,756,061	28,169,851	-	-
Steam	12,683,463	14,959,212	-	-
Chilled water	6,275,583	5,568,287	-	-
Total operating revenues	360,935,414	353,485,509	38,730,602	37,910,106
Operating Expenses				
Production:				
Fuel, purchased power, and other operating expenses	159,118,150	163,336,653	8,026,915	8,104,909
Maintenance	19,839,991	24,415,690	3,239,156	3,134,979
Transmission and distribution:				
Operating expenses	7,404,258	7,006,002	1,535,532	1,419,800
Maintenance	14,189,340	13,864,024	2,651,954	3,582,512
Administrative and general	64,007,040	61,297,460	10,271,709	10,875,024
Depreciation	41,541,561	39,104,343	6,607,984	6,155,947
Total operating expenses	306,100,340	309,024,172	32,333,250	33,273,171
Operating Income	54,835,074	44,461,337	6,397,352	4,636,935
Nonoperating Income (Expenses)				
Investment income	1,913,873	1,351,006	291,934	219,281
Other (expense) income	(4,588,160)	1,534,922	(831,206)	921,168
Impairment on Eckert Plant	(15,763,520)	-	-	-
System capacity fee	3,351,392	9,223,075	293,582	807,942
Bonded debt interest expense	(14,861,300)	(14,995,574)	(1,973,434)	(1,858,926)
Amortization - Central Utilities Complex	(2,902,715)	(8,057,715)	(254,278)	(705,856)
Payment in lieu of taxes	(21,033,531)	(20,840,065)	(2,298,643)	(2,248,922)
Other interest expense	(51,049)	(49,691)	(2,838)	(4,366)
Total nonoperating expense	(53,935,010)	(31,834,042)	(4,774,883)	(2,869,679)
Net Income (Loss)	**$ 900,064**	**$ 12,627,295**	**$ 1,622,469**	**$ 1,767,256**

Detail of Statements of Revenues and Expenses
For the Years Ended June 30, 2016 and 2015

Electric		Steam		Chilled Water	
2016	2015	2016	2015	2016	2015
$ -	$ -	$ -	$ -	$ -	$ -
278,489,705	266,878,053	-	-	-	-
24,756,061	28,169,851	-	-	-	-
-	-	12,683,463	14,959,212	-	-
-	-	-	-	6,275,583	5,568,287
303,245,766	295,047,904	12,683,463	14,959,212	6,275,583	5,568,287
144,516,334	147,658,997	4,862,084	6,103,489	1,712,817	1,469,258
15,599,674	20,499,896	767,751	544,181	233,410	236,634
5,515,861	5,235,380	352,865	350,822	-	-
11,136,141	9,979,670	401,245	301,536	-	306
52,476,238	49,245,600	1,011,070	984,240	248,023	192,596
30,949,620	29,178,160	2,553,160	2,451,617	1,430,797	1,318,619
260,193,868	261,797,703	9,948,175	10,735,885	3,625,047	3,217,413
43,051,898	33,250,201	2,735,288	4,223,327	2,650,536	2,350,874
1,484,122	1,023,221	79,313	58,070	58,504	50,434
(5,909,578)	586,071	1,928,331	(186,030)	224,293	213,713
(15,763,520)	-	-	-	-	-
2,802,434	7,712,335	255,376	702,798	-	-
(10,242,601)	(10,744,870)	(1,984,250)	(2,044,620)	(661,015)	(347,158)
(2,427,250)	(6,737,861)	(221,187)	(613,998)	-	-
(17,667,200)	(17,386,779)	(687,791)	(871,399)	(379,897)	(332,965)
(48,174)	(45,153)	(37)	(172)	-	-
(47,771,767)	(25,593,036)	(630,245)	(2,955,351)	(758,115)	(415,976)
$ (4,719,869)	**$ 7,657,165**	**$ 2,105,043**	**$ 1,267,976**	**$ 1,892,421**	**$ 1,934,898**

Detail of Statements of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
Net Position - June 30, 2014	$ 582,563,111	$ 93,647,830	$ 493,911,634	$ (4,853,301)	$ (143,052)
Income (loss) before contributions	12,627,295	1,767,256	7,657,165	1,267,976	1,934,898
Net Position - June 30, 2015	595,190,406	95,415,086	501,568,799	(3,585,325)	1,791,846
Income (loss) before contributions	900,064	1,622,469	(4,719,869)	2,105,043	1,892,421
Net Position - June 30, 2015	$ 596,090,470	$ 97,037,555	$ 496,848,930	$ (1,480,282)	$ 3,684,267

Pension Trust Funds - Detail of Statements of Net Position

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

	As of June 30, 2015			
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - Investment interest receivable	$ -	$ 104,768	$ 200,805	$ 305,573
Investments at fair value:				
Cash and money market trust fund	-	2,321,310	6,243,203	8,564,513
U.S. government obligations	-	6,659,203	15,462,341	22,121,544
Fixed income securities	-	11,312,551	21,269,571	32,582,122
Mutual funds	136,010,607	925,065	1,894,929	138,830,601
Stable value	31,844,948	-	-	31,844,948
Partnership	-	1,098,790	-	1,098,790
Common stock	-	51,257,647	111,112,369	162,370,016
Self-directed brokerage account	1,376,730	-	-	1,376,730
Participant notes receivable	3,888,351	-	-	3,888,351
Total investments	173,120,636	73,574,566	155,982,413	402,677,615
Net Position - Held in trust for pension and other employee benefits	**$ 173,120,636**	**$ 73,679,334**	**$ 156,183,218**	**$ 402,983,188**

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

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

Pension Trust Funds - Detail of Statement of Changes in Net Position
For the Year Ended June 30, 2015

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income (loss):				
Net appreciation (depreciation)				
in fair value of investments	$ 21,201	$ 215,209	$ 650,079	$ 886,489
Interest and dividend income	7,295,819	1,556,214	2,964,616	11,816,649
Net investment income (loss)	7,317,020	1,771,423	3,614,695	12,703,138
Employer contributions	5,548,360	-	9,670,794	15,219,154
Participant rollover contributions	1,345,481	-	-	1,345,481
Interest from participant notes receivable	155,010	-	-	155,010
Other	152,128	-	-	152,128
Total increases	14,517,999	1,771,423	13,285,489	29,574,911
Decreases				
Retiree benefits paid	10,451,713	8,045,948	9,670,794	28,168,455
Loan defaults	125,254	-	-	125,254
Participants' note and administrative fees	100,135	576,122	1,152,927	1,829,184
Total decreases	10,677,102	8,622,070	10,823,721	30,122,893
Change in Net Position Held in Trust	3,840,897	(6,850,647)	2,461,768	(547,982)
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	169,279,739	80,529,981	153,721,450	403,531,170
End of year	**$ 173,120,636**	**$ 73,679,334**	**$ 156,183,218**	**$ 402,983,188**

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

Financial Report

with Required Supplemental Information

As of and for the Years Ended June 30, 2016 and 2015

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

Contents

BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan"), which comprise the statement of plan net position as of June 30, 2016 and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

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

Prior Period Financial Statements

The financial statements of the Plan as of June 30, 2015, were audited by other auditors whose report dated August 28, 2015, expressed an unmodified opinion on those statements.

Other Matter

Report on Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of changes in the BWL's net pension asset and related ratios, schedule of employer contributions, and schedule of investment returns on pages 27 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

Using this Annual Report

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

Condensed Financial Information

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

	2016	2015	2014
Assets held in trust:			
Money market collective trust fund	$ 746,554	$ 2,321,310	$ 3,192,936
U.S. government obligations	7,565,160	6,659,203	7,354,686
Fixed income securities	10,491,022	11,312,551	11,844,906
Mutual funds	7,908,757	925,065	1,260,129
Partnership	1,101,086	1,098,790	1,082,059
Common stocks	37,486,031	51,257,647	55,688,109
Interest and dividend receivable	143,225	104,768	120,156
Total assets held in trust	**$ 65,441,835**	**$ 73,679,334**	**$ 80,542,981**
Liabilities - Accrued liabilities	$ -	$ -	$ 13,000
Net position restricted for pensions	65,441,835	73,679,334	80,529,981
Total liabilities and net position	**$ 65,441,835**	**$ 73,679,334**	**$ 80,542,981**
Changes in net position:			
Net investment income (loss)	$ 46,762	$ 1,771,423	$ 14,243,164
Benefits payments	(7,895,766)	(8,045,948)	(8,541,275)
Administrative fees	(388,495)	(576,122)	(595,925)
Net change in net position	**$ (8,237,499)**	**$ (6,850,647)**	**$ 5,105,964**

During fiscal year 2016, net investment gain was $47,000. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

Employer contributions were $0 in fiscal year 2016 according to the Board of Water and Light - City of Lansing, Michigan's (the "BWL") annual required contribution (ARC) as determined by the BWL's actuary.

Benefit payments in fiscal year decreased by $0.1 million to $7.9 million. This was due to a decrease in funds distributed in the form of lump-sum payouts upon retirement in fiscal year 2016 as compared to fiscal year 2015.

The BWL reimburses itself for the cost of retiree healthcare benefits pursuant to Internal Revenue Code Section 420. Reimbursement from the defined benefit pension plan assets is allowed to the extent that excess funds are available for transfer. In fiscal years 2016, 2015, and 2014, there were no excess funds available for transfer.

Investment Objectives and Asset Allocation

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

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

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

Domestic Large Capitalization Stocks	45.0%
Domestic Small Capitalization Stocks	10.0%
International Stocks	14.2%
U.S. Core Fixed Income	30.8%

Future Events

The Plan is currently overfunded, with a funded ratio (actuarial asset value divided by actuarial accrued liability) of 107 percent. This funding level results in an annual pension cost of $0 for fiscal year 2016. The board does not expect to make contributions to the trust in fiscal year 2017.

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

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Heather Shawa-DeCook, Chief Financial Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

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

Statement of Plan Net Position

	As of June 30	
	2016	2015
Assets		
Investments at fair value:		
Cash and money market trust fund	$ 746,554	$ 2,321,310
U.S. government obligations	7,565,160	6,659,203
Fixed income securities	10,491,022	11,312,551
Mutual funds	7,908,757	925,065
Partnership	1,101,086	1,098,790
Common stocks	37,486,031	51,257,647
Total investments at fair value	65,298,610	73,574,566
Receivable - Investment interest receivable	143,225	104,768
Net Position Restricted for Pensions	**$ 65,441,835**	**$ 73,679,334**

See Notes to Financial Statements.

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

Statement of Changes in Plan Net Position

	For the Year Ended June 30	
	2016	2015
Additions		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ (1,459,436)	$ 215,209
Interest and dividend income	1,506,198	1,556,214
Total investment income	46,762	1,771,423
Deductions		
Retiree benefits paid	7,895,766	8,045,948
Administrative expenses	388,495	576,122
Total deductions	8,284,261	8,622,070
Net Decrease in Net Position held in trust	(8,237,499)	(6,850,647)
Net Position Restricted for Pensions		
Beginning of year	73,679,334	80,529,981
End of year	**$ 65,441,835**	**$ 73,679,334**

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

Accounting and Reporting Principles

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

Basis of Accounting

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

In February 2015, the GASB issued statement No. 72 - Fair Value Measurement and Application. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes as well as to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard was implemented effective July 1, 2015.

Report Presentation

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

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

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

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

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

Note 2 - Plan Description

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

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

Note 2 - Plan Description (Continued)

Plan Membership - At February 29, 2016 and February 28, 2015 (the most recent actuarial valuation for funding purposes), plan membership consisted of the following:

	2016	2015
Inactive plan members or beneficiaries currently receiving benefits	382	398
Inactive plan members entitled to but not yet receiving benefits	7	8
Active plan members	11	14
Total	**400**	**420**

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

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

Note 2 - Plan Description (Continued)

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

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2016 and 2015. Plan documents do not require participant contributions.

Plan Termination - Although the BWL Pension Board has not expressed any intent to terminate the Plan, the BWL Pension Board has the right to do so at any time. If the Plan is terminated, each employee who has a pension benefit under the Plan will be fully vested in that benefit. Those benefits shall be calculated on Plan termination as though each person had elected to receive his or her accrued benefit as a lump sum amount, although no employee would be required to accept his or her Plan termination distribution in the form of a lump sum. The lump sum amount to be paid to each individual in any of the forms permitted by the Plan would be calculated in accordance with the Plan document. On termination of the Plan, each employee would have recourse toward satisfaction of his or her nonforfeitable benefit from the Plan assets and from the general assets of the BWL and its successor.

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

Note 3 - Cash, Investments, and Fair Disclosure

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

Risks at June 30, 2016

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are therefore not subject to custodial credit risk.

Concentrations - As of June 30, 2016, the plan had investments of $7,908,757 that were concentrated in one fund.

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

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

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

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	$ 7,565,160	Not rated	Not rated
Fixed income securities	348,392	AAA	S&P
Fixed income securities	4,684,590	AA+	S&P
Fixed income securities	154,460	AA	S&P
Fixed income securities	82,918	AA-	S&P
Fixed income securities	397,026	A+	S&P
Fixed income securities	1,020,452	A	S&P
Fixed income securities	959,554	A-	S&P
Fixed income securities	1,536,681	BBB+	S&P
Fixed income securities	932,173	BBB	S&P
Fixed income securities	235,907	BBB-	S&P
Fixed income securities	8,185	BB+	S&P
Fixed income securities	18,900	BB	S&P
Fixed income securities	5,440	BB-	S&P
Fixed income securities	106,344	CCC	S&P
Money market trust fund	746,554	Not rated	Not rated

Concentration of Credit Risk - The board of commissioners places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan does not hold more than 5 percent of its investments in any one issuer.

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

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are therefore not subject to custodial credit risk.

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

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 6,659,203	12.97 years
Fixed income securities	11,312,551	14.59 years
Money market trust fund	1,906,792	Less than 1 year
Portfolio weighted average maturity		12.65 years

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

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	$ 6,659,203	Not Rated	Not Rated
Fixed income securities	1,040,057	AAA	S&P
Fixed income securities	4,637,184	AA+	S&P
Fixed income securities	261,047	AA	S&P
Fixed income securities	118,461	AA-	S&P
Fixed income securities	488,182	A+	S&P
Fixed income securities	927,872	A	S&P
Fixed income securities	1,296,826	A-	S&P
Fixed income securities	892,810	BBB+	S&P
Fixed income securities	698,087	BBB	S&P
Fixed income securities	333,191	BBB-	S&P
Fixed income securities	10,250	BB	S&P
Fixed income securities	105,867	BB+	S&P
Fixed income securities	17,786	BB-	S&P
Fixed income securities	38,325	B+	S&P
Fixed income securities	390,595	CCC	S&P
Fixed income securities	56,011	D	S&P
Money market trust fund	2,321,310	Not Rated	Not Rated

Concentration of Credit Risk - The board of commissioners places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan does not hold more than 5 percent of its investments in any one issuer.

Note 4 – Net Appreciation or Depreciation of Investments

The net appreciation (depreciation) of the Plan's investments is as follows:

	2016	2015
Investments at fair value as determined by quoted market price:		
U.S. government obligations	$ 369,377	$ 119,270
Fixed income securities	(131,230)	(192,596)
Mutual funds	(584,872)	(133,224)
Common stocks and mutual funds	(1,112,711)	332,467
Alternative investments	-	89,292
Total	$ (1,459,436)	$ 215,209

Note 5 - 401(h) Account

Effective July 1, 1999, the Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component 401(h) account. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the plan sponsor. At June 30, 2016 and 2015, there were no excess pension plan assets available for transfer.

Note 6 - Tax Status

The Plan obtained its determination letter dated November 4, 2011, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan.

Note 7 - Plan Investments - Policy and Rate of Return

Investment Policy – The Plan's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the BWL's adopted asset allocation policy as of June 30, 2016 and 2015:

Asset Class	Target Allocation
Fixed Income	30.80%
Domestic equity	55.00%
International equity	14.20%

Rate of Return – For the year ended June 30, 2016, the annual money-weighted rate of return on plan investments, net of plan investment expense, was (0.49) percent. For the year ended June 30, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 1.55 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 8 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2016 and 2015 were as follows (in thousands):

	2016	2015
Total pension liability	$ 61,178	$ 65,395
Plan fiduciary net position	65,442	73,679
Plan's net pension asset	$ (4,264)	$ (8,284)
Plan fiduciary net position, as a percentage of the total pension liability	106.97%	112.67%

Actuarial Assumptions – The June 30, 2016 total pension liability was determined by an actuarial valuation as of February 29, 2016, which used update procedures to roll forward the estimated liability to June 30, 2016. The June 30, 2015 total pension liability was determined by an actuarial valuation as of February 28, 2015, which used update procedures to roll forward the estimated liability to June 30, 2015. The total pension liability is determined by the Plan's independent actuary and is that amount that results from applying actuarial assumptions to adjust the total pension liability to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Nyhart Actuary & Employee Benefits was the actuary for the February 29, 2016 and February 28, 2015 valuations. The valuations used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	2016 - 3.5%; 2015 - 6.44 - 10.26%
Investment rate of return	7.50%

The most recent experience review was completed in 2014. Since the Plan only covered 17 active participants in fiscal year 2014, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

The mortality table was based on the RP–2014 mortality table with MP–2015 Improvement Scale.

Note 8 - Net Pension Asset of the BWL (Continued)

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2016 and 2015 for each major asset class included in the pension plan's target asset allocation, as disclosed in Note 7, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Fixed income	2.00%
Domestic equity	6.40%
International equity	6.80%

Note 8 - Net Pension Asset of the BWL (Continued)

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

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

The following presents the net pension asset of the BWL at June 30, 2015, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate (7.50 %)	1% Increase (8.50 %)
Net pension liability (asset) of the BWL (in thousands)	$ (3,053)	$ (8,284)	$ (13,128)

Note 9 – Fair Value Measurements

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

Note 9 – Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015:

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

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

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

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

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

Note 9 – Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016 and 2015:

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

	June 30, 2015			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ -	$ 2,321,310	$ -	$ 2,321,310
U.S. government obligations	-	6,659,203	-	6,659,203
Fixed income securities	-	11,312,551	-	11,312,551
Mutual funds	-	925,065	-	925,065
Partnership	-	-	1,098,790	1,098,790
Common stocks	51,257,647	-	-	51,257,647
Total	$ 51,257,647	$ 21,218,129	$ 1,098,790	$ 73,574,566

Note 9 – Fair Value Measurements (Continued)

The following table sets forth a summary of changes in the fair value of the Plan's level 3 assets for the year ended:

	Level 3 Assets
Balance, July 1, 2014	$ 1,082,059
Unrealized gains (losses) relating to instruments still held at the reporting date	16,731
Balance, June 30, 2015	1,098,790
Unrealized gains (losses) relating to instruments still held at the reporting date	2,296
Balance, June 30, 2016	$ 1,101,086
The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 2,296

Sensitivity to Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Plan's Level 3 investments consist of forecasted cash flows, market value, and underlying discount rates adjusted for the expected timing of future cash flows. Significant changes in any of those inputs in isolation would result in a change in the fair value measurement.

Note 10 – Risks and Uncertainties

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

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

Note 11 – Subsequent Events

The Plan has evaluated subsequent events occurring through September 6, 2016, which is the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Required Supplemental Information

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

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

	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*
Total Pension Liability										
Service cost	$ 223	$ 274	$ 349	$ 407	$ -	$ -	$ -	$ -	$ -	$ -
Interest	4,625	4,919	4,751	5,085	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	299	(1,093)	964	(1,716)	-	-	-	-	-	-
Changes in assumptions **	(1,468)	-	4,538	-	-	-	-	-	-	-
Benefit payments, including refunds	(7,896)	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-
Net Change in Total Pension Liability	(4,217)	(3,946)	2,061	(4,001)	-	-	-	-	-	-
Total Pension Liability - Beginning of year	65,395	69,341	67,280	71,281	-	-	-	-	-	-
Total Pension Liability - End of year	61,178	65,395	69,341	67,280	-	-	-	-	-	-
Plan Net Position										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	47	1,771	14,243	10,170	-	-	-	-	-	-
Administrative expenses	(388)	(576)	(596)	(536)	-	-	-	-	-	-
Benefit payments, including refunds	(7,896)	(8,045)	(8,541)	(7,777)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	(8,237)	(6,850)	5,106	1,857	-	-	-	-	-	-
Net Position Retricted for Pensions - Beginning of year	73,679	80,529	75,424	73,567	-	-	-	-	-	-
Net Position Restricted for Pensions - End of year	65,442	73,679	80,530	75,424	-	-	-	-	-	-
BWL Net Pension Asset - Ending	**$ (4,264)**	**$ (8,284)**	**$ (11,189)**	**$ (8,144)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Plan Net Position as a % of Total Pension Liability	106.97%	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	772	1,018	1,225	1,684	-	-	-	-	-	-
BWL's Net Pension Asset as a % of Covered Employee Payroll	(552%)	(814%)	(913%)	(484%)	- %	- %	- %	- %	- %	- %

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2007 - 2012 is not available and this schedule will be presented on a prospective basis.

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

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

See Note to Required Supplemental Information.

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

Schedule of Employer Contributions
Last Ten Fiscal Years
(in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ 86	$ 2,109	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	86	2,109	-	-	-
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll	772	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162	3,391
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	3.59%	79.29%	- %	- %	- %

See Note to Required Supplemental Information.

Actuarial valuation information relative to the determination of contributions:

Valuation date	June 30, 2016, based on roll-forward of March 1, 2016 valuation
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	3.0 percent
Salary increases	3.5 percent per year
Investment rate of return	7.5 percent per year compounded annually
Mortality	RP-2014 Mortality Table with MP-2015 Improvement Scale

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

Schedule of Investment Returns
Last Ten Fiscal Years

	2016	2015	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*
Annual money-weighted rate of return, net of investment expense	(0.49%)	1.55%	19.18%	- %	- %	- %	- %	- %	- %	- %

*GASB 67 was implemented as of June 30, 2014. Information from 2007 - 2013 is not available and this schedule will be presented on a prospective basis

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Financial Report

with Required Supplemental Information

As of and for the Years Ended June 30, 2016 and 2015

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Contents

BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan"), a trust fund of Lansing Board of Water and Light, which comprise the statement of trust net position as of June 30, 2016, and the related statement of changes in trust net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

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

Prior Period Financial Statements

The financial statements of the Plan as of June 30, 2015, were audited by other auditors whose report dated August 28, 2015, expressed an unmodified opinion on those statements.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 and the required supplemental information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

Using this Annual Report

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

Condensed Financial Information

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

	2016	2015	2014
Assets held in trust:			
Cash and money market trust funds	$ 13,498,404	$ 6,243,203	$ 5,711,439
Fixed income securities	28,725,054	21,269,571	20,713,869
U.S. government obligations	21,458,288	15,462,341	16,284,339
Equities	77,022,878	111,112,369	108,540,537
Mutual funds and other	15,208,788	1,894,929	2,259,641
Interest and dividend receivable	386,930	200,805	211,625
Total plan assets	**$ 156,300,342**	**$ 156,183,218**	**$ 153,721,450**
Changes in net position:			
Net investment income (loss)	$ 948,997	$ 3,614,695	$ 25,667,779
Employer contributions	9,423,081	9,670,794	9,266,529
Retiree benefits paid	(9,423,081)	(9,670,794)	(9,266,529)
Administrative fees	(831,872)	(1,152,927)	(1,050,771)
Net change in net position	**$ 117,125**	**$ 2,461,768**	**$ 24,617,008**

Investment Objectives and Asset Allocation

The Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan") assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Plan, the BWL has taken into account the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance. Consistent with this, the BWL has determined that the investment objective is income and growth. This investment objective is a balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long term.

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

Domestic large capitalization stocks	43.2%
Domestic small capitalization stocks	10.0%
International stocks	10.7%
U.S. core fixed income	31.1%
Private equity	5.0%

Investment Results

The fiscal year ended June 30, 2016 saw a net investment income, net of administrative expenses, of $0.1 million. We believe this performance is in line with the overall level of recovery experienced by the stock and bond markets.

Future Events

The BWL is funding its other postemployment benefits (OPEBs) and is intending to meet its annual required contributions (ARC) in part by making contributions into the VEBA Trust Fund.

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Heather Shawa-DeCook, Chief Financial Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

Statement of Trust Net Position

	As of June 30	
	2016	2015
Assets		
Investments - Fair value:		
Cash and money market trust funds	$ 13,498,404	$ 6,243,203
Fixed income securities	28,725,054	21,269,571
U.S. government obligations	21,458,288	15,462,341
Equities	77,022,878	111,112,369
Mutual funds	15,208,788	1,894,929
Total investments at fair value	155,913,412	155,982,413
Investment interest and dividend receivable	386,930	200,805
Trust Net Position	**$ 156,300,342**	**$ 156,183,218**

See Notes to Financial Statements.

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Statement of Changes in Trust Net Position

	For the Year Ended June 30	
	2016	2015
Increase		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ (2,293,242)	$ 650,079
Interest and dividend income	3,242,238	2,964,616
Total investment income	948,996	3,614,695
Employer contributions	9,423,081	9,670,794
Total increase	10,372,077	13,285,489
Decrease		
Retiree benefits paid	9,423,081	9,670,794
Administrative expenses	831,872	1,152,927
Total decrease	10,254,953	10,823,721
Net Increase in Trust Net Position	117,124	2,461,768
Trust Net Position		
Beginning of year	156,183,218	153,721,450
End of year	**$ 156,300,342**	**$ 156,183,218**

See Notes to Financial Statements.

Note 1 - Description of the Plan

The following description of the Plan, a trust fund of the BWL, provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

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

The Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. 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 715 participants eligible to receive benefits at June 30, 2016 and 725 participants eligible at June 30, 2015.

Benefits – Benefits shall not be paid from this Plan to participants or their beneficiaries during a plan year in which there has been a "qualified transfer" pursuant to Internal Revenue Code Section 420(e)(1)(8) from the Lansing Board of Water and Light Defined Benefit Plan for the Employees' Pensions, except that once the "qualified transfer" has been exhausted for the purpose of paying qualified current retiree health liabilities, benefit payments may be made under this Plan consistent with Internal Revenue Code Section 420(e)(1)(B). After "qualified transfers" have been exhausted, benefits paid under this Plan shall be those benefits described in the relevant sections of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Trustees – Each member of the Lansing Board of Water and Light board of commissioners is a trustee during the term of office as a commissioner. The trustees have appointed Fifth Third Bank as custodian of the Plan's assets.

Note 1 - Description of the Plan (Continued)

Contributions – The retiree benefits are paid by BWL's general cash flow to the third party administrators who process participant claims. These payments represent contributions to the Plan. Employer contributions in the statement of changes in trust net position are equal to the retiree benefits paid because the annual required contribution (ARC) for the year ended June 30, 2016 was less than the pay-as-you-go amount. During the years ended June 30, 2016 and 2015, the cost to BWL of maintaining the Retiree Benefit Plan was $9,423,081 and $9,670,794 of which respectively, was incurred as retiree benefit payments. The Lansing Board of Water and Light may make additional contributions in such a manner and at such times as appropriate. All contributions received, together with the income thereon, are held, invested, reinvested, and administered by the trustees pursuant to the terms of the plan agreement. Additional contributions are only made to the Plan if the ARC is more than the pay-as-you-go amount. No employee contributions are allowed under this Plan. Contributions are recognized when due and when the amount to be contributed is committed by the BWL.

Participation – Participation in this Plan is determined in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2016, there were 715 active participants (not eligible to receive benefits), 78 disabled participants, 431 retired participants, 489 active spouses (not eligible to receive benefits), and 138 surviving spouses participating in the Plan. At June 30, 2015, there were 725 active participants (not eligible to receive benefits), 80 disabled participants, 485 retired participants, 491 active spouses (not eligible to receive benefits), and 152 surviving spouses participating in the Plan.

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

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

Note 2 - Summary of Significant Accounting Policies

Accounting and Reporting Principles

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

Basis of Accounting

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

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

In February 2015, the GASB issued statement No. 72 – Fair Value Measurement and Application. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes as well as to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard was implemented effective July 1, 2015.

Report Presentation

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

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

Contribution trend information is as follows (in thousands):

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

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

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

Note 3 - Cash, Investments, and Fair Disclosure

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

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

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

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

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

Risks at June 30, 2016

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are therefore not subject to custodial credit risk.

Interest Rate Risk

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

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 21,458,288	13.43 years
Fixed income securities	28,725,054	13.07 years
Money market trust funds	12,699,502	Less than 1 year
Portfolio weighted average maturity		13.33 years

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

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of yearend, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

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

Concentration of Credit Risk

The Board of Commissioners places no limit on the amount the Plan may invest in any one issuer.

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

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

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and, therefore, are not subject to custodial credit risk.

Interest Rate Risk

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

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 15,462,341	11.87 years
Fixed income securities	21,269,571	14.12 years
Money market trust funds	6,051,856	Less than 1 year
Portfolio weighted average maturity		11.31 years

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

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of yearend, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Fixed income securities	$ 2,469,542	AAA	S&P
Fixed income securities	7,891,448	AA+	S&P
Fixed income securities	448,070	AA	S&P
Fixed income securities	323,354	AA-	S&P
Fixed income securities	936,680	A+	S&P
Fixed income securities	1,686,646	A	S&P
Fixed income securities	2,216,285	A-	S&P
Fixed income securities	1,666,828	BBB+	S&P
Fixed income securities	1,284,231	BBB	S&P
Fixed income securities	861,822	BBB-	S&P
Fixed income securities	156,369	BB+	S&P
Fixed income securities	98,900	BB	S&P
Fixed income securities	261,306	BB-	S&P
Fixed income securities	63,744	B+	S&P
Fixed income securities	141,348	B-	S&P
Fixed income securities	574,676	CCC	S&P
Fixed income securities	117,710	D	S&P
Fixed income securities	70,612	Not rated	Not rated
Money market trust funds	6,051,856	Not rated	Not rated

Concentration of Credit Risk

The Board of Commissioners places no limit on the amount the Plan may invest in any one issuer.

Note 4 – Net Appreciation of Investments

Net (depreciation) appreciation of the Plan's investments is as follows:

	2016	2015
Investments at fair value as determined by quoted market price:		
Fixed income securities	$ 517,281	$ (257,174)
U.S. government obligations	671,566	160,377
Equities	(2,471,834)	970,370
Alternative investments	193,224	24,418
Mutual funds	(1,203,479)	(247,912)
Total	$ (2,293,242)	$ 650,079

Note 5 - Tax Status

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

Note 6 – Upcoming Accounting Pronouncements

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, was issued in June 2015. This new accounting standard addresses reporting by postemployment benefit plans other than pensions (OPEB) that administer defined benefit OPEB benefits on behalf of governments. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. The provisions of this new standard are effective for the Plan’s June 30, 2017 year end.

Note 7 – Fair Value Measurements

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

Note 7 – Fair Value Measurements (Continued)

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015:

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

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

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

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

Note 7 – Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016 and 2015:

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

	June 30, 2015			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ 193,939	$ 6,049,264	$ -	$ 6,243,203
Fixed income securities	-	21,269,571	-	21,269,571
U.S. government obligations	-	15,462,341	-	15,462,341
Equities	111,112,369	-	-	111,112,369
Mutual funds	-	1,894,929	-	1,894,929
Total	$ 111,306,308	$ 44,676,105	$ -	$ 155,982,413

Note 8 – Risks and Uncertainties

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

Note 8 – Risks and Uncertainties (Continued)

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

Note 9 – Subsequent Events

The Plan has evaluated subsequent events occurring through September 6, 2016, which is the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Required Supplemental Information

Schedule of Funding Progress
(in thousands)

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

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

Schedule of Employer Contributions
(in thousands)

Fiscal Year Ended	Employer Contributions: Required	Employer Contributions: Actual	Percentage of ARC Contributed
6/30/2008	$ 14,797	$ 14,962	101%
6/30/2009	18,132	17,866	99%
6/30/2010	21,291	21,318	100%
6/30/2011	17,300	17,236	100%
6/30/2012	15,744	15,854	101%
6/30/2013	13,994	14,045	100%
6/30/2014	9,200	9,268	101%
6/30/2015	5,762	9,671	168%
6/30/2016	5,788	9,423	163%

ARC - Annual required contribution

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

Financial Report

with Supplemental Information

As of and for the Years Ended June 30, 2016 and 2015

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

Contents

BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Lansing Board of Water and Light Employees' Defined Contribution Pension Plan (the "Plan"), which comprise the statement of plan net position as of June 30, 2016 and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

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

Prior Period Financial Statements

The financial statements of the Plan as of June 30, 2015, were audited by other auditors whose report dated August 28, 2015, expressed an unmodified opinion on those statements.

Other Matters

Report on Required Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

Using this Annual Report

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

Condensed Financial Information

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

	2016	2015	2014
Assets held in trust:			
Mutual funds	$ 124,001,268	$ 130,790,091	$ 127,907,621
Stable value	34,193,741	31,844,948	33,607,203
Guaranteed income fund	7,735,485	5,220,516	2,535,165
Participant notes receivable and other	5,300,821	5,265,081	5,229,750
Net position	**$ 171,231,315**	**$ 173,120,636**	**$ 169,279,739**
Changes in plan assets:			
Net investment income/(loss)	$ (1,505,961)	$ 7,317,020	$ 23,453,570
Employer and participant contributions	7,688,472	6,893,841	6,521,703
Benefits paid to participants	(7,946,117)	(10,451,713)	(7,645,116)
Loan defaults and other changes	(125,715)	81,749	55,140
Changes in net position	**$ (1,889,321)**	**$ 3,840,897**	**$ 22,385,297**

Investment Objectives

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

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

Investment Results

The fiscal year ended June 30, 2016 saw a net investment loss of $1.5 million. Total assets held in trust at the end of the fiscal year were $171.2 million.

Future Events

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

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Heather Shawa-DeCook, Chief Financial Officer, at P.O. Box 13007, Lansing, Michigan 48901-3007.

Statement of Net Position

	As of June 30	
	2016	2015
Assets		
Participant-directed investments (Note 1):		
Mutual funds:		
Money market	$ 675,272	$ 228,799
Bond and equity funds	17,070,664	17,657,647
Stock funds	60,866,409	64,962,538
Balanced funds	24,859,849	24,993,891
Growth funds	6,212,755	6,269,076
International funds	14,316,319	16,678,140
Total mutual funds	124,001,268	130,790,091
Stable value	34,193,741	31,844,948
Guaranteed income fund	7,735,485	5,220,516
Self-directed brokerage account	1,551,450	1,376,730
Total participant-directed investments	167,481,944	169,232,285
Participant notes receivable	3,749,371	3,888,351
Net Position Restricted for Pensions	**$ 171,231,315**	**$ 173,120,636**

See Notes to Financial Statements.

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

Statement of Changes in Net Position

	For the Year Ended June 30	
	2016	2015
Increase		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	$ (8,061,276)	$ 21,201
Dividend income	6,555,315	7,295,819
Total investment income (loss)	(1,505,961)	7,317,020
Employer contributions (Note 1)	5,661,884	5,548,360
Participant rollover contributions	2,026,588	1,345,481
Interest from participant notes receivable	150,624	155,010
Other	-	152,128
Total increase	6,333,135	14,517,999
Decrease		
Benefits paid to participants	7,946,117	10,451,713
Loan defaults	186,801	125,254
Participants' note and administrative fees	89,538	100,135
Total decrease	8,222,456	10,677,102
Change in Net Position Held in Trust	(1,889,321)	3,840,897
Net Position Restricted for Pensions		
Beginning of year	173,120,636	169,279,739
End of year	**$ 171,231,315**	**$ 173,120,636**

See Notes to Financial Statements.

Note 1 - Description of the Plan

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

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

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

Contributions - For employees hired before January 1, 1997, the BWL is required to contribute 15 percent of the employees' compensation. For employees hired on or after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute an additional 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all non-bargaining employees. The Board of Commissioners of the Board of Water and Light - City of Lansing may amend the Plan's provisions and contribution requirements.

Note 1 - Description of the Plan (Continued)

Participant Accounts – Each participant's account is credited with the participant's rollover contributions and withdrawals, as applicable, and allocations of the BWL's contributions and plan earnings. Allocations are based on participants' earnings or account balances, as defined in the plan document. Forfeited balances of terminated participants' non-vested accounts are used to reduce future BWL contributions. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

As of June 30, 2016, there were 915 participants in the Plan, of which 705 were active employees. As of June 30, 2015, there were 878 participants in the Plan, of which 725 were active employees.

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

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

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

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

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

Note 1 - Description of the Plan (Continued)

International - Seeks long-term capital appreciation by investing primarily in equity securities of issuers located outside of the U.S.

Stock Funds - Seeks long-term growth through capital gains, although historically dividends have been an important source of total return. These funds primarily invest in the common stocks of companies based in the United States. There are many options for diversification within this category.

Bond and Equity Funds - Seeks to maximize current income with capital appreciation as a secondary consideration by investing primarily in debt securities issued by the U.S. government or its agencies and domestic and foreign corporations. They are not fixed-income investments. Even when a mutual fund's portfolio is composed entirely of bonds, the fund itself has neither a fixed yield nor a contractual obligation to give investors back their principal at some later maturity date - the two key fixed characteristics of individual bonds.

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

Self-directed Brokerage Account - Participants with a minimum account balance of $35,000 may transfer from their fund accounts a minimum of $5,000 to a self-directed brokerage account. Eligible investments are equity securities traded on U.S. exchanges valued at greater than $5 and over 400 mutual funds from 18 investment management companies. Participants pay a one-time set-up fee of $50.

Participant Notes Receivable - Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum of the lesser of $50,000 or 50 percent of their account balances. Notes receivable are treated as transfers between the investment fund and the notes receivable fund. Note terms range from one to five years or up to 20 years for the purchase of a primary residence. The notes receivable are secured by the balance in the participant's account and bear interest at a rate commensurate with prevailing rates as determined periodically by the plan administrator. Principal and interest are paid ratably through payroll deductions.

Note 1 - Description of the Plan (Continued)

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

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

Note 2 - Summary of Significant Accounting Policies

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

In February 2015, the GASB issued statement No. 72 – Fair Value Measurement and Application. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes as well as to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard was implemented effective July 1, 2015.

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

Valuation of Investments and Income Recognition – The investments are stated at 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 Plan at year end.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

Note 3 - Investments

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

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

Risks at June 30, 2016

Custodial Credit Risk of Bank Deposits – At the end of the year, the Plan has no bank deposits.

Concentrations – As of June 30, 2016, the plan had stable value investments of $34,193,741 that were concentrated in one fund.

Note 3 – Investments (Continued)

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

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

Risks at June 30, 2015

Custodial Credit Risk of Bank Deposits – At the end of the year, the Plan has no bank deposits.

Concentrations – As of June 30, 2015, the plan had stable value investments of $31,844,948 that were concentrated in one fund.

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 130,790,091	Not rated	Not rated
Stable value	31,844,948	AA	S&P

Note 4 - Plan Termination

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

Note 5 - Tax Status

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

Note 6 – Fair Value Measurements

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

Note 6 – Fair Value Measurements (Continued)

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015:

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

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

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

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

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

Note 6 – Fair Value Measurements (Continued)

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

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

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016 and 2015:

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

Note 6 – Fair Value Measurements (Continued)

	June 30, 2015			
Investment Type	Level 1	Level 2	Level 3	Total
Mutual funds:				
Money market	$ 228,799	$ -	$ -	$ 228,799
Bond and equity funds	17,657,647	-	-	17,657,647
Stock funds	64,962,538	-	-	64,962,538
Balanced funds	24,993,891	-	-	24,993,891
Growth funds	6,269,076	-	-	6,269,076
International funds	16,678,140	-	-	16,678,140
Self-directed brokerage account	1,376,730	-	-	1,376,730
Total investments by fair value level	$ 132,166,821	$ -	$ -	$ 132,166,821
Investments measured at the net asset value (NAV)				
Stable value				31,844,948
Guaranteed Lifetime Income				5,220,516
Total investments measured at fair value				$ 169,232,285

Investments Measured Using NAV per Share Practical Expedient: The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of $34,193,741 and $31,844,948 as of June 30, 2016 and 2015, respectively and the guaranteed lifetime income fund had a fair value of $7,735,485 and $5,220,516, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

Note 7 – Risks and Uncertainties

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

Note 8 – Subsequent Events

The Plan has evaluated subsequent events occurring through September 6, 2016, which is the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Supplemental Information

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

Statement of Changes in Net Position by Fund

	Money Market		Bond Funds	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ -	$ 410	$ (319,980)	$ (845,789)
Interest income	-	-	-	-
Dividend income	22	-	810,705	813,414
Employer contributions	34,540	13,977	529,792	477,593
Participant rollover contributions	-	-	8,532	25,541
Loan repayments	5,074	21,638	193,306	197,715
Interest from participant notes receivable	-	-	-	-
Other	-	-	(385,742)	(2,216)
Total increase, net of realized and unrealized gains and losses	39,636	36,025	836,613	666,258
Decrease				
Benefits paid to participants	43,376	150,217	1,091,421	660,545
Loans to participants	33,845	2,210	187,775	197,409
Loan defaults	-	-	-	-
Participants' note and administrative fees	510	327	24,262	24,358
Total decrease	77,731	152,754	1,303,458	882,312
Net (Decrease) Increase Prior to Interfund Transfers	(38,095)	(116,729)	(466,845)	(216,054)
Interfund Transfers	484,568	227,735	(120,138)	1,316,824
Net (Decrease) Increase	446,473	111,006	(586,983)	1,100,770
Net Position Restricted for Pensions				
Beginning of year	228,799	117,793	17,657,647	16,556,877
End of year	**$ 675,272**	**$ 228,799**	**$ 17,070,664**	**$ 17,657,647**

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

Statement of Changes in Net Position by Fund (Continued)

	Stock Funds		Balanced Funds	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ (6,007,342)	$ 530,586	$ (991,563)	$ (122,553)
Interest income	-	-	-	-
Dividend income	4,282,319	5,067,314	922,976	972,450
Employer contributions	1,766,531	1,689,400	1,952,650	1,588,916
Participant rollover contributions	73,093	246,359	180,578	643,541
Loan repayments	553,734	635,470	428,538	405,918
Interest from participant notes receivable	-	-	-	-
Other	9,779	87	10	40,549
Total increase, net of realized and unrealized gains and losses	678,114	8,169,216	2,493,189	3,528,821
Decrease				
Benefits paid to participants	2,689,987	3,269,915	898,284	1,639,212
Loans to participants	473,779	496,175	466,829	353,843
Loan defaults	-	-	-	-
Participants' note and administrative fees	27,779	29,869	11,212	14,811
Total decrease	3,191,545	3,795,959	1,376,325	2,007,866
Net (Decrease) Increase Prior to Interfund Transfers	(2,513,431)	4,373,257	1,116,864	1,520,955
Interfund Transfers	(1,582,698)	(28,034)	(1,250,906)	(3,487,477)
Net Increase (Decrease)	(4,096,129)	4,345,223	(134,042)	(1,966,522)
Net Position Restricted for Pensions				
Beginning of year	64,962,538	60,617,315	24,993,891	26,960,413
End of year	**$ 60,866,409**	**$ 64,962,538**	**$ 24,859,849**	**$ 24,993,891**

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

Statement of Changes in Net Position by Fund (Continued)

	Growth Funds		International Funds	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ (143,888)	$ 115,442	$ (1,409,383)	$ (279,065)
Interest income	-	-	-	-
Dividend income	-	-	539,293	432,105
Employer contributions	555,780	568,790	499,889	514,289
Participant rollover contributions	-	71,130	4,804	44,996
Loan repayments	192,185	235,807	169,473	201,380
Interest from participant notes receivable	-	-	-	-
Other	-	-	9,748	50
Total increase, net of realized and unrealized gains and losses	604,077	991,169	(186,176)	913,755
Decrease				
Benefits paid to participants	13,370	160,116	440,001	605,388
Loans to participants	167,821	280,581	109,981	205,341
Loan defaults	-	-	-	-
Participants' note and administrative fees	3,550	3,972	11,794	15,306
Total decrease	184,741	444,669	561,776	826,035
Net (Decrease) Increase Prior to Interfund Transfers	419,336	546,500	(747,952)	87,720
Interfund Transfers	(475,657)	(422,184)	(1,613,869)	(920,041)
Net Increase (Decrease)	(56,321)	124,316	(2,361,821)	(832,321)
Net Position Restricted for Pensions				
Beginning of year	6,269,076	6,144,760	16,678,140	17,510,461
End of year	**$ 6,212,755**	**$ 6,269,076**	**$ 14,316,319**	**$ 16,678,140**

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

Statement of Changes in Net Position by Fund (Continued)

	Total Mutual Funds	
	Year Ended June 30	
	2016	2015
Increase		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ (8,872,156)	$ (600,969)
Interest income	-	-
Dividend income	6,555,315	7,285,283
Employer contributions	5,339,182	4,852,965
Participant rollover contributions	267,007	1,031,567
Loan repayments	1,542,310	1,697,928
Interest from participant notes receivable	-	-
Other	(366,205)	38,470
Total increase, net of realized and unrealized gains and losses	4,465,453	14,305,244
Decrease		
Benefits paid to participants	5,176,439	6,485,393
Loans to participants	1,440,030	1,535,559
Loan defaults	-	-
Participants' note and administrative fees	79,107	88,643
Total decrease	6,695,576	8,109,595
Net (Decrease) Increase Prior to Interfund Transfers	(2,230,123)	6,195,649
Interfund Transfers	(4,558,700)	(3,313,177)
Net Increase (Decrease)	(6,788,823)	2,882,472
Net Position Restricted for Pensions		
Beginning of year	130,790,091	127,907,619
End of year	**$ 124,001,268**	**$ 130,790,091**

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

Statement of Changes in Net Position by Fund (Continued)

	Stable Value Fund		Brokerage Account	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ 555,204	$ 580,681	$ -	$ -
Interest income	-	-	42,977	10,536
Dividend income	-	-	-	-
Employer contributions	643,972	631,503	-	-
Participant rollover contributions	1,461,825	313,914	-	-
Loan repayments	162,931	177,673	-	-
Interest from participant notes receivable	-	-	-	-
Other	114,020	113,632	-	-
Total increase, net of realized and unrealized gains and losses	2,937,952	1,817,403	42,977	10,536
Decrease				
Benefits paid to participants	2,719,980	3,947,408	-	-
Loans to participants	184,103	136,331	-	-
Loan defaults	-	-	-	-
Participants' note and administrative fees	10,331	11,373	-	-
Total decrease	2,914,414	4,095,112	-	-
Net Increase (Decrease) Prior to Interfund Transfers	23,538	(2,277,709)	42,977	10,536
Interfund Transfers	2,325,255	515,454	131,743	219,153
Net Increase (Decrease)	2,348,793	(1,762,255)	174,720	229,689
Net Position Restricted for Pensions				
Beginning of year	31,844,948	33,607,203	1,376,730	1,147,041
End of year	**$ 34,193,741**	**$ 31,844,948**	**$ 1,551,450**	**$ 1,376,730**

Statement of Changes in Net Position by Fund (Continued)

	Participant Notes Receivable		Guaranteed Lifetime Income	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ -	$ -	$ 79,128	$ 41,489
Interest income	-	-	-	-
Dividend income	-	-	-	-
Employer contributions	-	-	64,473	63,892
Participant rollover contributions	-	-	297,756	-
Loan repayments	(1,726,936)	(1,896,004)	21,695	20,403
Interest from participant notes receivable	150,624	155,010	-	-
Other	-	-	13	26
Total increase, net of realized and unrealized gains and losses	(1,576,312)	(1,740,994)	463,065	125,810
Decrease				
Benefits paid to participants	-	-	49,698	18,912
Loans to participants	(1,624,133)	(1,671,890)	-	-
Loan defaults	186,801	125,254	-	-
Participants' note and administrative fees	-	-	103	119
Total decrease	(1,437,332)	(1,546,636)	49,801	19,031
Net Increase (Decrease) Prior to Interfund Transfers	(138,980)	(194,358)	413,264	106,779
Interfund Transfers	-	-	2,101,702	2,578,570
Net Increase (Decrease)	(138,980)	(194,358)	2,514,966	2,685,349
Net Position Restricted for Pensions				
Beginning of year	3,888,351	4,082,709	5,220,519	2,535,167
End of year	**$ 3,749,371**	**$ 3,888,351**	**$ 7,735,485**	**$ 5,220,516**

Statement of Changes in Net Position by Fund (Continued)

	Reclassifications		Total	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
Increase				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ 133,571	$ -	$ (8,104,253)	$ 21,201
Interest income	-	-	42,977	10,536
Dividend income	-	-	6,555,315	7,285,283
Employer contributions	(385,743)	-	5,661,884	5,548,360
Participant rollover contributions	-	-	2,026,588	1,345,481
Loan repayments	-	-	-	-
Interest from participant notes receivable	-	-	150,624	155,010
Other	252,172	-	-	152,128
Total increase, net of realized and unrealized gains and losses	-	-	6,333,135	14,517,999
Decrease				
Benefits paid to participants	-	-	7,946,117	10,451,713
Loans to participants	-	-	-	-
Loan defaults	-	-	186,801	125,254
Participants' note and administrative fees	-	-	89,538	100,135
Total decrease	-	-	8,222,456	10,677,102
Net Increase (Decrease) Prior to Interfund Transfers	-	-	(1,889,321)	3,840,897
Interfund Transfers	-	-	-	-
Net Increase (Decrease)	-	-	(1,889,321)	3,840,897
Net Position Restricted for Pensions				
Beginning of year	-	-	173,120,636	169,279,739
End of year	**$ -**	**$ -**	**$ 171,231,315**	**$ 173,120,636**

RESOLUTION 2016-_____

<u>Amendments of Pension Plans and Trusts; Revised Investment Policy Statements; Creation of Retirement Plan Committee; and Delegation of Authority.</u>

WHEREAS, the Board of Water and Light (the “Sponsor”) sponsors the Lansing Board of Water and Light Defined Benefit Plan for Employees’ Pensions (the “Defined Benefit Plan”) and the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light (the “Retiree Medical Benefit Plan”); and

WHEREAS, the Sponsor has decided to create a formal committee to which the Sponsor will delegate discretionary authority and responsibility for the discharge of certain of its duties relating to the Defined Benefit Plan and the Retiree Medical Benefit Plan; and

WHEREAS, the Sponsor has legal authority pursuant to the Defined Benefit Plan and to the Retiree Medical Benefit Plan to create the committee and to delegate certain duties to the committee; and

WHEREAS, the Sponsor wants to amend the Pension Plan Trust relating to the Defined Benefit Plan for the purpose of implementing the terms of the Lansing Board of Water and Light Defined Benefit Plan for Employees’ Pensions Statement of Investment Policies, Procedures and Objectives; and

WHEREAS, the Sponsor wants to amend the Retiree Benefit Plan and Trust Agreement relating to the Retiree Medical Benefit Plan for the purpose of implementing the terms of the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures and Objectives.

THEREFORE, it is:

RESOLVED, that the Sponsor approves and adopts the First Amendment to the Pension Plan Trust relating to the Lansing Board of Water and Light Defined Benefit Plan for Employees’ Pensions effective as indicated therein.

FURTHER RESOLVED, that the Sponsor approves and adopts the First Amendment to the Lansing Board of Water and Light Retiree Benefit Plan and Trust Agreement relating to the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light effective as indicated therein.

FURTHER RESOLVED, that, after its review, and based on a recommendation from management, the Sponsor adopts and approves: (i) the attached Lansing Board of Water & Light Defined Benefit Plan for Employees’ Pensions Statement of Investment Policies, Procedures and Objectives; and (ii) the attached Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures and Objectives.

FURTHER RESOLVED, that the Sponsor hereby creates a committee effective September 27, 2016 the name of which shall be the “Retirement Plan Committee,” and the Sponsor appoints the following individuals to serve on the Retirement Plan Committee: Chief Financial Officer, Executive Director of Human Resources, and the Manager of Finance. The Sponsor appoints the Chief Financial Officer to serve as chair of the Committee. Each Retirement Plan Committee member shall serve on the Committee until his or her resignation or removal from the Committee. The presence of a majority of Committee members shall constitute a quorum and will be sufficient to conduct the business of the Committee. Actions of the Committee shall be authorized by a vote of a majority of the Committee members present at a meeting at which a quorum is present. Any action which may be taken at a Committee meeting may be taken without such meeting if consent to the action in writing (including by electronic mail), setting forth the action so taken, is signed by all of the then-serving members of the Committee.

FURTHER RESOLVED, that the Sponsor acknowledges that the Trustees intend to delegate to the Retirement Plan Committee certain duties relating to the investment of Defined Benefit Plan assets and to the investment of Retiree Medical Benefit Plan assets. The Sponsor does not delegate to the Committee authority to amend, freeze or terminate the Defined Benefit Plan or the Retiree Medical Benefit Plan.

FURTHER RESOLVED, that the Sponsor indemnifies and holds harmless each member of the Committee from and against all liability of any kind, including, without limitation, court costs, attorneys’ fees and other expenses that arise from any legal or administrative proceeding of any kind that is brought by any person, entity or government agency in connection with the Committee’s discharge of its duties relating to the Defined Benefit Plan and to the Retiree Medical Benefit Plan; provided, however, that this indemnification shall not apply with regard to any proceeding in which a Committee member is found to have been grossly negligent or to have violated a law or committed a crime.

To: Board of Commissioners, Finance Committee
From: Heather Shawa-DeCook, Chief Financial Officer
Date: September 9, 2016
Re: Investment Policy Statement Revisions and Accompanying Resolutions

EXECUTIVE SUMMARY

Attached are several documents which require the Board of Commissioners' approval:

1. Revised Investment Policy Statement for Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions (the "Defined Benefit Plan");
2. Revised Investment Policy Statement Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light (the "Retiree Medical Benefit Plan");
3. First Amendment to the Defined Benefit Plan Trust;
4. First Amendment to the Retiree Medical Benefit Plan Trust; and
5. Resolution which captures the above 4 documents and creates a Retirement Plan Committee.

In essence there is only one substantive change, revision of investment policy. The other resolutions formalize and better define current roles and responsibilities amongst Senior Management, Commissioners and the Commissioners as Trustees.

Background:

The Lansing Board of Water and Light sponsors the Defined Benefit Plan and Retiree Medical Benefit Plan. The assets of the Defined Benefit Plan and the assets of the Retiree Medical Benefit Plan are held in trust and invested pursuant to a set of investment guidelines by an investment manager. The General Manager, Chief Financial Officer, and certain staff members currently have authority to hire an investment manager, provide investment instructions to the investment manager, and oversee the investment manager's actions (hereinafter known as the "Current Investment Structure") pursuant to resolutions previously approved by the Board of Commissioners.

Senior Management consulted with its outside investment advisor, The Bogdahn Group, and legal counsel (both internal and external benefit expert) in order to formalize the Current Investment Structure with regard to the investment of Defined Benefit Plan and Retiree Medical Benefit Plan assets. After considering current industry practices and trends, Senior Management recommends formally documenting the Current Investment Structure so that the allocation of fiduciary responsibility relating to the Defined Benefit Plan Trust and to the Retiree Medical Benefit Plan Trust is clearly defined. To that end, Senior Management's recommendation involves the Board of Commissioners creating a formal Retirement Plan Committee to which the Trustees of the Defined Benefit Plan Trust and the Trustees of the Retiree Medical Benefit Plan Trust will delegate certain investment-related authority. The attached (i) Lansing Board of Water & Light Defined Benefit Plan for Employees' Pensions Statement of Investment Policies, Procedures, and Objectives (the "Defined Benefit IPS"); (ii) Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures, and Objectives (the "Retiree Medical Benefit IPS"); (iii) First Amendment to the

Defined Benefit Plan Trust; and (iv) First Amendment to the Retiree Medical Benefit Plan Trust formalize the Current Investment Structure as more fully described below.

The 5 documents referenced above are further detailed as follows:

A. The Defined Benefit IPS and the Retiree Medical Benefit IPS each enumerate the investment-related authority that the Trustees will delegate to the Retirement Plan Committee with regard to the investment of the assets of each Plan. That delegation of authority will become effective when the Trustees meet in November 2016. Prior to that November meeting, the General Manager, Chief Financial Officer and appropriate staff members will continue to have the authority to make asset allocation decisions, consistent with current practice.

B. The Defined Benefit IPS and the Retiree Medical Benefit IPS each include investment guidelines, an updated asset allocation policy, administrative and investment review procedures, and certain guidelines to be followed when evaluating the investments of each Plan's assets. The investment-related information in each IPS is based on recommendations from The Bogdahn Group, and will become effective immediately upon the Board of Commissioners' approval of the IPS documents.

C. The First Amendment to the Defined Benefit Plan Trust and the First Amendment to the Retiree Medical Benefit Plan Trust each clarify, consistent with current practice: (i) that the Board of Commissioners retains the authority to adopt and approve each IPS (including any changes thereto); and (ii) that the Trustees have the authority to delegate investment-related authority to the Retirement Plan Committee.

Summary Recommendation

Senior Management recommends approval of the Defined Benefit Plan IPS and the Retiree Medical Benefit Plan IPS. Senior Management also recommends approval of the First Amendment to the Defined Benefit Plan Trust, the First Amendment to the Retiree Medical Benefit Plan Trust, and the creation of the Retirement Plan Committee. The proposed Retirement Plan Committee members will consist of the Chief Financial Officer (Chair), Executive Director of Human Resources, and Manager of Finance.

**FIRST AMENDMENT TO THE
PENSION PLAN TRUST
RELATING TO THE
LANSING BOARD OF WATER AND LIGHT
DEFINED BENEFIT PLAN FOR EMPLOYEES' PENSIONS**

The Pension Plan Trust relating to the Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions is hereby amended effective ________________ as set forth below.

1. Section I.4 is replaced in its entirety with the following:

"The Board shall establish an investment policy for the Plan that it communicates to the Trustee in writing. The Board shall periodically review and, if necessary, revise and update such investment policy. The Trustee shall acknowledge the investment policy and any revisions or updates to it by communicating the same to the Board in writing. It shall be the duty of the Trustee to act strictly in accordance with such policy, and any changes therein, as so communicated to and acknowledged by the Trustee from time to time in writing."

2. The following new subsection (p) is added to the end of Section II.2:

"(p) To delegate to any other person(s) or entity all or any part of the Trustee's powers, rights, and duties that are described in this Section II.2. Any such delegation must be reported promptly to the Board. The delegation must be in writing (including by electronic mail) and must be kept with the Trustee's permanent records."

LANSING BOARD OF WATER AND LIGHT

Dated:____________________ By:______________________________________
Its: Chair, Board of Commissioners

Dated:____________________ By:______________________________________
Its: Corporate Secretary

FIRST AMENDMENT TO THE
LANSING BOARD OF WATER AND LIGHT
RETIREE BENEFIT PLAN AND TRUST AGREEMENT
RELATING TO THE
POST-RETIREMENT BENEFIT PLAN FOR ELIGIBLE EMPLOYEES OF
LANSING BOARD OF WATER AND LIGHT

The Lansing Board of Water and Light Retiree Benefit Plan and Trust Agreement relating to the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light is hereby amended effective _________________ as set forth below.

1. Section 7.01 is replaced in its entirety with the following:

> "7.01 Investment Pursuant to Policy. The discretion of the Trustee in investing and reinvesting the principal and income of the Trust Fund shall be subject to such investment policy (and any changes thereof from time to time) as the Plan Administrator may, pursuant to this Agreement, adopt from time to time and communicate to the Trustee in writing. The Trustee shall formally acknowledge the investment policy and any revisions or updates to it by communicating the same to the Plan Administrator in writing. It shall be the duty of the Trustee to act strictly in accordance with such policy, and any changes therein, as so communicated to and acknowledged by the Trustee from time to time in writing."

2. The following new subsection (p) is added to the end of Section 9.01.

> "(p) To delegate to any other person(s) or entity all or any part of the Trustee's powers, rights, and duties that are described in this Section 9.01. Any such delegation must be reported promptly to the Board. The delegation must be in writing (including by electronic mail) and must be kept with the Trustee's permanent records."

LANSING BOARD OF WATER AND LIGHT

Dated:_____________________ By:_______________________________________
Its: Chair, Board of Commissioners

Dated:_____________________ By:_______________________________________
Its: Corporate Secretary

LANSING BOARD OF WATER & LIGHT DEFINED BENEFIT PLAN FOR EMPLOYEES' PENSIONS

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective September 27, 2016, except as
otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Section Page

Introduction

The Lansing Board of Water and Light ("**BWL**") is a municipally owned utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan. The Plan receives contributions from the Lansing Board of Water and Light. The Plan pays retirement benefits provided for in the Plan. Plan assets are invested in various types of securities.

This Statement of Investment Policy ("**Statement**") is issued by the Commissioners of the Lansing Board of Water & Light (the "**Commissioners**") for the Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions ("**Plan**"). The purpose of this Statement is to (i) identify and present a set of investment objectives, an asset allocation policy, investment performance standards and procedures for managing the Plan's assets; and (ii) clarify the delegation of certain investment-related duties to the Retirement Plan Committee. This document is intended to be consistent with the provisions of Michigan Public Act 314 of 1965 ("**Act 314**"), as amended.

Updates to Statement

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with the BWL's investment philosophy. Any revisions or updates made to the Statement shall be communicated to the Trustees from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

Trustees

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water & Light. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee, effective as of the date on which this Statement is acknowledged by the Trustees by signature of an authorized representative of the Trustees. As of that date, all provisions in this Statement relating to the Retirement Plan Committee shall become operative.

Responsibility for selecting and providing direction to Investment Managers, Investment Consultants, custodians, and other administrators required for the management of the Plan's assets and for evaluating overall investment results has been delegated to the Retirement Plan Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees, in evaluating the Retirement Plan Committee's actions, shall act in accordance with the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees in writing.

Purpose of the Plan

The Plan was established for the purpose of providing retirement benefits to eligible employees and their beneficiaries. The Plan was closed to new employees hired after

December 31, 1996. The Plan is a governmental defined benefit pension plan which provides retirement, early retirement, disability, termination, and death benefits based upon a formula that includes final average compensation, years of credited service, and a pension benefit percentage. An investment portfolio is maintained to invest employer contributions and to reinvest income.

Investment Philosophy

The Commissioners, Trustees and the Retirement Plan Committee recognize their respective fiduciary duties to invest the Plan's assets in formal compliance with the Prudent Man Rule. The Trustees interpret this to mean that, in addition to the specific guidelines and restrictions set forth in this document, the assets of the Plan shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Trustees recognize that, commensurate with its overall objective of maximizing long-range returns while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Trustees and the Retirement Plan Committee rely upon appropriate professional advice.

Delegation of Responsibilities

Retirement Plan Committee

The Retirement Plan Committee acknowledges its responsibility as a fiduciary to the Plan. In this regard, the Retirement Plan Committee must act prudently and for the exclusive interest of the Plan's participants and beneficiaries.

More specifically, the Retirement Plan Committee's responsibilities include:

1. Complying with the provisions of pertinent federal, state, and local laws and regulations relating to the investment of Plan assets.
2. Evaluating and appointing a qualified manager(s) and consultant(s) to invest and manage the Plan's assets.
3. Communicating the investment goals, objectives, and standards to the investment managers including any material changes that may subsequently occur.
4. Determining, with the advice of the Investment Consultant ("Consultant"), how Plan assets should be allocated among various asset classes.
5. Review and evaluate the results of the Investment Manager(s) ("Manager(s)") in context with established standards of performance.
6. Taking whatever corrective action is deemed prudent and appropriate when an investment manager fails to perform as mutually expected.
7. The Retirement Plan Committee will notify the Manager(s) of:
   a) Significant changes in the Plan cash flow and/or cash flow needs; and
   b) Any matter which bear upon the proper investment management of the Plan's assets, including pertinent financial, legal, and actuarial information.
9. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.

10. Review any program that may mitigate or offset costs.

The Retirement Plan Committee shall give consideration to and have an understanding of the following prior to retaining professionals:

1. Establishing standards/requirements/appropriateness of services.
2. Identification of appropriate candidates for the position.
3. Solicitation of bids and proposals.
4. Conduct interviews.
5. Check references.
6. Make reasoned decisions based on all information, including:
   a) Philosophy/Goals (i.e., Mission Statement)
   b) Ownership/Management/Organizational Structure/Turnover
   c) Operational History/Growth Plan
   d) Infrastructure: Resources/Tools-of-the-Trade
   e) Financial Condition
   f) Educational Background/Industry Experience
   g) Professional Qualifications
   h) Risk Controls/ Insurance
   I) Criminal, Civil, Regulatory History
   j) Fees
   k) Liquidity
7. Document the decision process.
8. Verify compliance with federal and state laws; specifically, Act 314, and Investment Guidelines.
9. Establish standards of conduct, terms and conditions of relationship (Written Contract/Agreement).

Investment Consultant

In carrying out its delegated responsibilities, the Retirement Plan Committee considers the services of a Consultant as appropriate to assist in the placement of investment funds. The primary role of the Consultant is to provide independent, objective, third-party advice and counsel that will enable the Retirement Plan Committee to make well-informed and timely decisions regarding the investment of the Plan's assets.

The Consultant's role is that of an advisor to the Plan. The Consultant acknowledges its responsibilities as a fiduciary under Act 314. The Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice concerning the investment management of Plan assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. In specific terms, the primary responsibilities of the Consultant are as follows:

1. Measure and evaluate investment performance each calendar quarter.
2. Evaluate the Plan's tolerance for risk.

3. Advise regarding appropriate investment objectives and goals based on the Plan's needs and risk tolerance.
4. Determine what degree of potential market volatility should be factored into the investment approach.
5. Based on all of the above, advise regarding optimal allocation of assets.

<u>Providing a Range of Capabilities</u>
The Consultant is a third party retained by the Retirement Plan Committee to assist in several key areas of the management of financial assets.

The Consultant may be asked to:
1. Gather and evaluate statistical information on the financial assets, investment needs, and risk parameters.
2. Analyze and understand the implications of historic capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3. Maintain data on the universe of available professional investment managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual management firms.
4. Provide periodic asset allocation studies and updates.
5. Conduct periodic trustee educational workshops.
6. Provide information with respect to alternate investments.
7. Monitor the investment of the Plan's assets for compliance with Act 314.
8. Analyze and evaluate the Plan's investment performance, and the performance of its investment managers, both past and ongoing.
9. Make specific and timely recommendations for the consideration of the Management during each phase of the investment management process.
10. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.

<u>Making Recommendations</u>
Investment Policy - The Consultant may be asked to recommend an appropriate investment policy that will meet the Plan's needs. This includes recommending investment objectives and guidelines that adhere to the goals and tolerance for risk. The Consultant may be asked to provide an appropriate model of asset allocation composed of equity, fixed-income, money market instruments or alternative investments designed to meet the established objectives.

Manager Selection - The Consultant may be asked to recommend the best qualified and most appropriate Manager(s) candidates for implementing the established investment policy. The Consultant shall be capable of utilizing a well-established system to select suitable Manager(s) candidates from both a local and national investment manager database.

Manager Performance Review and Evaluation
The Consultant shall provide the Retirement Plan Committee with performance reports and ongoing quality control to assure that the standards and investment objectives are maintained. Performance reports generated by the Consultant shall be compiled at least quarterly and communicated to the Retirement Plan Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Retirement Plan Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a Manager(s) for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to a Manager(s) organization.

Manager(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Investment Manager(s)
Each Manager acknowledges its responsibility as an investment fiduciary under Act 314. Each Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

Adherence to Policy Guidelines and Objectives
The assets of the Plan are to be managed in accordance with the policy guidelines and objectives expressed herein as well as any additional guidelines provided separately. Assets shall be invested in strict compliance with Act 314. Each Manager shall manage its individual portfolio in compliance with Act 314.

Discretionary Authority
Each Manager is expected to exercise complete investment discretion. Such discretion includes decisions to buy, hold and sell equities or fixed income securities (including cash equivalents) in amounts and proportions reflective of the Manager's current investment strategy and compatible with the investment guidelines.

Each Manager is expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The investment manager shall invest the assets of the Plan with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims. The investment manager will provide the Retirement Plan Committee with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Retirement Plan Committee.

Communications

Each Manager is responsible for communicating with the Retirement Plan Committee regarding all significant matters pertaining to the investment of the Plan's assets. The Retirement Plan Committee shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the Plan's assets. If requested, Manager(s) will meet with the Retirement Plan Committee on a quarterly basis to review the portfolio and the investment outlook.

Reporting

Each Manager is expected to provide:

1. INITIALLY, a written statement (per management agreement) acknowledging their acceptance of the guidelines and performance standards herein stated.
2. AT LEAST QUARTERLY, a portfolio composition report to the Retirement Plan Committee of the funds under their management. The report shall contain as a minimum the following data:
   a. Investment Review
   i. Account characteristics;
   ii. Investment summary to include asset description, cost, date, unit value, market value, percent of market, current yield, unrealized gains/losses, and estimated annual income;
   iii. Maturity schedule to include year due and percent of total; and
   b. Summary and statement of assets under management.
3. ANNUALLY, and thereafter at the request of the Retirement Plan Committee, participation in a review meeting, the agenda to include, but not restricted to -
   a. A review and re-appraisal of the herein contained Statement;
   b. A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio;
   c. A commentary on investment results in light of the appropriate standards of performance as stated herein;
   d. A synopsis of key investment decisions made by the Manager, the underlying rationale, and how those decisions could impact future results;
   e. Recommendations as to changes in goals or standards, based upon material and sustained changes in the capital markets;
4. UPON WRITTEN OR ORAL REQUEST -
   a. Copies of all documentation in support of any investment activity;
   b. A summary of receipts and disbursements;
   c. A listing of assets acquired and disposed of;
   d. Evidence of suitable insurance coverage of the Manager's fiduciary responsibilities.

5. IMMEDIATE NOTIFICATION -
   a. Notice of material changes in the Manager's outlook, policy, and tactics
   b. Notice of material changes in ownership, organizational structure, financial condition, senior staffing and management of the Manager's organization.

Each manager's investment guidelines and performance objectives are made a part of their investment management agreement. Compliance with these guidelines and objectives is evaluated during the quarterly investment performance evaluation process.

Custodian

The primary responsibilities of the custodian ("Custodian") are to:

1. Provide adequate safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide adequate accounting services.
5. Prepare useful, accurate, and timely investment reports.
6. Provide adequate cash-management services.
7. Provide adequate administrative support.
8. Develop and maintain adequate data processing capabilities.
9. Handle proxy administration promptly and accurately.
10. Complete and file timely proof of claims for settlements of security class action suits and monitor the processing to ensure claims are received.

Plan Investment Policy

The Plan is maintained to provide retirement benefits for the participants and their beneficiaries. The Plan is established in accordance with the laws of the State of Michigan whereby it operates and is controlled, as to its investments, by PA 314.

The Trustees (or their delegate) are authorized and permitted by the Plan Document and under Michigan law to engage the services of a Manager(s), Consultant and Custodian and to set the direction for the investments.

The Trustees require that the Manager(s), Consultant and Custodian comply with all applicable laws, rules and regulations. Manager(s) will be given full discretion in managing the funds within this Statement.

Plan Investment Objectives

The Trustees' attitudes regarding Plan assets combine both preservation of capital and moderate risk-taking. The Trustees recognize that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the Plan.

The policies and restrictions contained in this Statement should not impede the Manager to attain the overall Plan objectives, nor should they exclude the Manager from appropriate investment opportunities.

The Plan's overall investment objective is to earn an average, annual return of 7.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

The Plan's objective is based on the expected returns under the strategic asset allocation policy, which follows. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of risk (volatility, or return fluctuation) is appropriate given the Plan's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Plan assets will reduce the Plan's investment return volatility.

Asset Allocation Policy

This strategic asset allocation policy is consistent with the achievement of the Plan's financial needs and overall investment objectives. Asset classes are selected based on the expected long-term returns, individual reward/risk characteristics, and correlation with other asset classes, manger roles, and fulfillment of the Plan's long-term financial needs. Conformance with PA 314 of 1965 and amendments thereof is also considered.

The Commissioners established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Commissioners selected the target allocation for each asset class based on the Plan's current financial condition, expected future contributions, withdrawals, plan expenses and current investment opportunities, notwithstanding short-term performance. The Commissioners intend to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives, and asset class performance.

Asset Allocation Policy Index

Asset Class	Manager Role	Allocation Range	Target Allocation
U.S. Equities	Active/Passive	35 to 70%	35%
Non-U.S. Equities	Active, Broad or Focused	0 to 20%	10%
Global Fixed Income	Active, Intermediate Diversified	30 to 50%	35%
Commercial Real Estate	Core, value-added, opportunistic, public or private	0 to 10%	10%
Alternative Investments*	Hedge funds, private equity, private debt, real assets	0 to 15%	10%
Cash Equivalents	Active, money market fund	0 to 5%	0%
	Total Fund		100.0%

*Current allocation to Alternative Investments is 0%. The 10% allocation will be invested equally between U.S. Equities and Global Fixed Income (5% each).

The Trustees acknowledge that alternative asset classes are available and intend to periodically evaluate the merits of using different asset classes. The Trustees also recognize the benefits of diversifying manager roles within a given asset class and intend to periodically evaluate this decision as well as the active versus passive management decision.

In order to preserve capital gains and protect principal during periods of market duress, a short-term U.S. government and/or high-quality credit securities fund may be used. Given the infrequent short-term use and specialized purpose of this fund, it is not included in the Policy Index.

Administrative and Investment Review Procedures

Review of Policies

All investment policies and investment management guidelines will be reviewed annually by the Trustees, or whenever circumstances change to the extent that the policies may be ineffective or inappropriate.

General Review

Annually, all those responsible for investment of the Plan's assets shall submit a report or meet with the Retirement Plan Committee to review their activities for the current year and discuss proposed changes that are anticipated.

Review of Investment Performance

The Retirement Plan Committee will monitor the investment performance of each manager and the overall deployment of the Plan's assets. Monitoring will include periodic meetings with the Manager(s), and a quarterly performance evaluation performed by the Consultant.

Each performance evaluation will include:

1. The present and prospective economic climate;
2. Current period and historical, time-weighted rates of return for the overall Plan, including an evaluation against the previously specified performance standards;
3. Current period and historical, time-weighted rates of return for each Manager, including an evaluation against the previously specified performance standards;
4. Additional quantitative measures and analysis will be employed to objectively monitor each Manager's compliance with investment policies and guidelines.
5. An understanding of the strategy being used by each Manager to carry out the current Investment Policy; and
6. Opportunities available within current and prospective asset categories.

The Retirement Plan Committee requests that all documents, exhibits, written materials, etc. to be used during the meetings be submitted in advance.

Rebalancing Policy – Overall Fund Allocation

The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be addressed when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Retirement Plan Committee will formally review the policy and actual allocations in light of anticipated cash flow.

Review of Investment Management

Manager(s) are responsible for frequent and open communication (in writing) with Management and the Consultant on all significant matters pertaining to Investment Policy and the management of the Plan's assets, including, but not limited to:

1. A quarterly report of major changes in each Manager's investment outlook, investment strategy and portfolio structure.
2. Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing of each Manager's organization.
3. Any investment guidelines which inhibit the fulfillment of a Manager's fiduciary duties, inappropriately restrict performance, or prevent the manager from meeting their performance standards.

Proxy Voting

The Trustees confer the right to vote proxies to the Manager(s), unless the Manager(s) are otherwise notified by the Retirement Plan Committee in writing. It is expected that Manager(s) will vote for the sole benefit of the Plan participants and beneficiaries, considering those factors that may affect the value of the Plan's investments and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives.

A summary of votes cast shall be submitted to the Retirement Plan Committee on an annual basis. This summary must identify the company, number of shares held, subject proxy issues, actual vote (whether for or against the Retirement Plan Committee's recommendation), and justification.

Directed Brokerage

With regard to directed-brokerage, the Trustees do not require the Manager(s) to trade securities through an individual or set of broker-dealers. The Trustees wish to give the Manager(s) full discretion over their choice of broker-dealers, so long as the Plan's total cost or proceeds of transactions are the most favorable under the circumstances.

Tenure

While the relationship with Manager(s) is expected to be ongoing, the Retirement Plan Committee reserves the right to terminate their relationship with any retained Manager at any time they deem appropriate.

In General Managers are fiduciaries with discretion to implement the guidelines within the direction provided by this Statement. All Managers are expected to be familiar with and follow the investment guidelines established under Michigan PA Act 314 with amendments.

Managers should present (and obtain approval on) material changes in their investment style, philosophy or process to the Retirement Plan Committee before implementing any changes on behalf of the Plan.

Managers (except commingled funds) are prohibited from using warrants, options, futures, collectibles, leverage, mutual funds (money market funds exempted), LLCs, ETFs, unit investment trusts, margin purchases or short sales, securities of Plan service providers (custodial bank notwithstanding), and loaning or pledging securities (certain index funds exempted).

If a Manager would like to purchase a security that falls outside of this Plan's investment guidelines (commingled funds exempted), or is in doubt as to the goal and intent of these guidelines, they should submit a written request for clarification to the Retirement Plan Committee prior to purchase. Any security not specifically defined or permitted within is prohibited for investment on behalf of this Plan.

Cash Equivalents The cash equivalents Manager may invest in any institutional money market fund ("Fund") that follows the following objectives and policies:

1. The Fund seeks to provide current income while maintaining liquidity and a stable share price of $1.

2. The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, Bankers Acceptances, commercial paper (except ABS commercial paper), and other money market securities.
3. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two nationally recognized rating services (or by one, if only one rating service has rated the security).
4. If unrated, the security rating must be determined by the manager, subject to the limitations in item 3.
5. The Fund maintains a dollar-weighted average maturity of 90 days or less.

Total Plan Performance
The Plan's investment objectives are 1) to equal or exceed a 7.5% annualized return over five-year rolling periods, 2) to equal or exceed the return of the Policy Index (a.k.a. the Plan's performance standard) over five-year rolling periods, and 3) to equal or exceed the return of the median institutional fund with a similar allocation/risk exposure (a.k.a. the Plan's performance universe) over one-year rolling periods.

The Policy Index is a hypothetical fund invested 40% in U.S. equities, 10% in non-U.S. equities, 40% in Global Fixed Income, and 10% in commercial real estate (the U.S. Equities and the Global Fixed Income allocations will be reduced by 5% each after the Alternative Investments allocation is completed).

Conclusion
It is in the intent of this Statement to state an attitude and/or philosophy which will guide Managers toward the performance desired. It is further intended that these objectives be sufficiently specific, but also sufficiently flexible.

It is the opinion of the Commissioners that these limitations and guidelines will not prevent a Manager from achieving the objectives set forth.

Glossary of Investment Terms

Alternative Investments - These investments are typically made through the purchase of limited partner units in a private limited partnership. Alternative investments include hedge funds, managed futures and commodities, private equity, real assets and other.

Asset Allocation - A process used to determine the optimal allocation of a fund's portfolio among broad asset classes.

Benchmark Index - An index against which the investment performance of a Manager can be compared for the purpose of determining the value added by the Manager. A benchmark portfolio must be of the same style as the Manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Nominal Return - The nominal return on an asset is the rate of return un-adjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically are. The wider the range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e. has a bell shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – The strategic mix of assets designed to accomplish a long-term goal such as funding pension benefits. Generally, policy targets are set for the strategic asset classes with allowable ranges around those targets. The allowable ranges are established to allow flexibility in the management of the investment portfolio.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation – The tactical mix of assets is short-term in nature with a goal of maximizing returns. This strategy is used to take advantage of current market conditions that may be more favorable for one asset class over another.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Universe - A group of Managers/Funds chosen to have an investment style similar to the Manager/Fund and used for comparison purposes.

POST-RETIREMENT BENEFIT PLAN FOR ELIGIBLE EMPLOYEES OF LANSING BOARD OF WATER & LIGHT

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective September 27, 2016, except as
otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Introduction

The Lansing Board of Water and Light ("**BWL**") is a municipally owned utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan. The Plan receives contributions from the Lansing Board of Water and Light. The Plan pays retirement benefits provided for in the Plan. Plan assets are invested in various types of securities.

This Statement of Investment Policy ("**Statement**") is issued by the Trustees of the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light ("**Plan**"). The purpose of this Statement is to identify and present a set of investment objectives, an asset allocation policy, investment performance standards and procedures for managing the Plan's assets.

Updates to Statement

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with the BWL's investment philosophy. Any revisions or updates made to the Statement shall be communicated to the Trustees from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

Trustees

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water & Light. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee, effective as of the date on which this Statement is acknowledged by the Trustees by signature of an authorized representative of the Trustees. As of that date, all provisions in this Statement relating to the Retirement Plan Committee shall become operative.

Responsibility for selecting and providing direction to Investment Managers, Investment Consultants, custodians, and other administrators required for the management of the Plan's assets and for evaluating overall investment results has been delegated to the Retirement Plan Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees, in evaluating the Retirement Plan Committee's actions, shall act in accordance with the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees in writing.

Purpose of the Plan

The Plan was established for the purpose of providing post-retirement medical benefits to eligible employees and their beneficiaries. The Plan is a governmental retiree medical plan which provides medical, prescription drug, dental and life insurance benefits upon a participant's attainment of normal, early or disability retirement status. An investment portfolio is maintained to invest employer contributions and to reinvest income.

Investment Philosophy

The Commissioners, Trustees and the Retirement Plan Committee recognize their respective fiduciary duties to invest the Plan's assets in formal compliance with the Prudent Man Rule. The Trustees interpret this to mean that, in addition to the specific guidelines and restrictions set forth in this document, the assets of the Plan shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Trustees recognize that, commensurate with its overall objective of maximizing long-range returns while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Trustees and the Retirement Plan Committee rely upon appropriate professional advice.

Delegation of Responsibilities

Retirement Plan Committee

The Retirement Plan Committee acknowledges its responsibility as a fiduciary to the Plan. In this regard, the Retirement Plan Committee must act prudently and for the exclusive interest of the Plan's participants and beneficiaries.

More specifically, the Retirement Plan Committee's responsibilities include:

1. Complying with the provisions of pertinent federal, state, and local laws and regulations relating to the investment of Plan assets.
2. Evaluating and appointing a qualified manager(s) and consultant(s) to invest and manage the Plan's assets.
3. Communicating the investment goals, objectives, and standards to the investment managers including any material changes that may subsequently occur.
4. Determining, with the advice of the Investment Consultant ("Consultant"), how Plan assets should be allocated among various asset classes.
5. Review and evaluate the results of the Investment Manager(s) ("Manager(s)") in context with established standards of performance.
6. Taking whatever corrective action is deemed prudent and appropriate when an investment manager fails to perform as mutually expected.
7. The Retirement Plan Committee will notify the Manager(s) of:
   a) Significant changes in the Plan cash flow and/or cash flow needs; and
   b) Any matter which bear upon the proper investment management of the Plan's assets, including pertinent financial, legal, and actuarial information.
9. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.
10. Review any program that may mitigate or offset costs.

The Retirement Plan Committee shall give consideration to and have an understanding of the following prior to retaining professionals:

1. Establishing standards/requirements/appropriateness of services.

2. Identification of appropriate candidates for the position.
3. Solicitation of bids and proposals.
4. Conduct interviews.
5. Check references.
6. Make reasoned decisions based on all information, including:
   a) Philosophy/Goals (i.e., Mission Statement)
   b) Ownership/Management/Organizational Structure/Turnover
   c) Operational History/Growth Plan
   d) Infrastructure: Resources/Tools-of-the-Trade
   e) Financial Condition
   f) Educational Background/Industry Experience
   g) Professional Qualifications
   h) Risk Controls/ Insurance
   I) Criminal, Civil, Regulatory History
   j) Fees
   k) Liquidity
7. Document the decision process.
8. Verify compliance with federal and state laws and Investment Guidelines.
9. Establish standards of conduct, terms and conditions of relationship (Written Contract/Agreement).

Investment Consultant

In carrying out its delegated responsibilities, the Retirement Plan Committee considers the services of a Consultant as appropriate to assist in the placement of investment funds. The primary role of the Consultant is to provide independent, objective, third-party advice and counsel that will enable the Retirement Plan Committee to make well-informed and timely decisions regarding the investment of the Plan's assets.

The Consultant's role is that of an advisor to the Plan. The Consultant acknowledges its responsibilities as a fiduciary. The Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice concerning the investment management of Plan assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. In specific terms, the primary responsibilities of the Consultant are as follows:

1. Measure and evaluate investment performance each calendar quarter.
2. Evaluate the Plan's tolerance for risk.
3. Advise regarding appropriate investment objectives and goals based on the Plan's needs and risk tolerance.
4. Determine what degree of potential market volatility should be factored into the investment approach.
5. Based on all of the above, advise regarding optimal allocation of assets.

Providing a Range of Capabilities

The Consultant is a third party retained by the Retirement Plan Committee to assist in several key areas of the management of financial assets.

The Consultant may be asked to:
1. Gather and evaluate statistical information on the financial assets, investment needs, and risk parameters.
2. Analyze and understand the implications of historic capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3. Maintain data on the universe of available professional investment managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual management firms.
4. Provide periodic asset allocation studies and updates.
5. Conduct periodic trustee educational workshops.
6. Provide information with respect to alternate investments.
7. Monitor the investment of the Plan's assets for compliance with relevant laws and regulations.
8. Analyze and evaluate the Plan's investment performance, and the performance of its investment managers, both past and ongoing.
9. Make specific and timely recommendations for the consideration of the Management during each phase of the investment management process.
10. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.

Making Recommendations

Investment Policy - The Consultant may be asked to recommend an appropriate investment policy that will meet the Plan's needs. This includes recommending investment objectives and guidelines that adhere to the goals and tolerance for risk. The Consultant may be asked to provide an appropriate model of asset allocation composed of equity, fixed-income, money market instruments or alternative investments designed to meet the established objectives.

Manager Selection - The Consultant may be asked to recommend the best qualified and most appropriate Manager(s) candidates for implementing the established investment policy. The Consultant shall be capable of utilizing a well-established system to select suitable Manager(s) candidates from both a local and national investment manager database.

Manager Performance Review and Evaluation

The Consultant shall provide the Retirement Plan Committee with performance reports and ongoing quality control to assure that the standards and investment objectives are maintained. Performance reports generated by the Consultant shall be compiled at least quarterly and communicated to the Retirement Plan Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Retirement Plan Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a Manager(s) for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to a Manager(s) organization.

Manager(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Investment Manager(s)

Each Manager acknowledges its responsibility as an investment fiduciary. Each Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

Adherence to Policy Guidelines and Objectives

The assets of the Plan are to be managed in accordance with the policy guidelines and objectives expressed herein as well as any additional guidelines provided separately. Assets shall be invested in strict compliance with relevant laws and regulations. Each Manager shall manage its individual portfolio in compliance with relevant laws and regulations.

Discretionary Authority

Each Manager is expected to exercise complete investment discretion. Such discretion includes decisions to buy, hold and sell equities or fixed income securities (including cash equivalents) in amounts and proportions reflective of the Manager's current investment strategy and compatible with the investment guidelines.

Each Manager is expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The investment manager shall invest the assets of the Plan with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims. The investment manager will provide the Retirement Plan Committee with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Retirement Plan Committee.

Communications

Each Manager is responsible for communicating with the Retirement Plan Committee regarding all significant matters pertaining to the investment of the Plan's assets. The Retirement Plan Committee shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the Plan's assets. If requested, Manager(s) will meet with the Retirement Plan Committee on a quarterly basis to review the portfolio and the investment outlook.

Reporting

Each Manager is expected to provide:

1. INITIALLY, a written statement (per management agreement) acknowledging their acceptance of the guidelines and performance standards herein stated.
2. AT LEAST QUARTERLY, a portfolio composition report to the Retirement Plan Committee of the funds under their management. The report shall contain as a minimum the following data:
   a. Investment Review
   i. Account characteristics;
   ii. Investment summary to include asset description, cost, date, unit value, market value, percent of market, current yield, unrealized gains/losses, and estimated annual income;
   iii. Maturity schedule to include year due and percent of total; and
   b. Summary and statement of assets under management.
3. ANNUALLY, and thereafter at the request of the Retirement Plan Committee, participation in a review meeting, the agenda to include, but not restricted to -
   a. A review and re-appraisal of the herein contained Statement;
   b. A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio;
   c. A commentary on investment results in light of the appropriate standards of performance as stated herein;
   d. A synopsis of key investment decisions made by the Manager, the underlying rationale, and how those decisions could impact future results;
   e. Recommendations as to changes in goals or standards, based upon material and sustained changes in the capital markets;
4. UPON WRITTEN OR ORAL REQUEST -
   a. Copies of all documentation in support of any investment activity;
   b. A summary of receipts and disbursements;
   c. A listing of assets acquired and disposed of;
   d. Evidence of suitable insurance coverage of the Manager’s fiduciary responsibilities.
5. IMMEDIATE NOTIFICATION -
   a. Notice of material changes in the Manager’s outlook, policy, and tactics
   b. Notice of material changes in ownership, organizational structure, financial condition, senior staffing and management of the Manager’s organization.

Each manager's investment guidelines and performance objectives are made a part of their investment management agreement. Compliance with these guidelines and objectives is evaluated during the quarterly investment performance evaluation process.

Custodian

The primary responsibilities of the custodian ("Custodian") are to:

1. Provide adequate safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide adequate accounting services.
5. Prepare useful, accurate, and timely investment reports.
6. Provide adequate cash-management services.
7. Provide adequate administrative support.
8. Develop and maintain adequate data processing capabilities.
9. Handle proxy administration promptly and accurately.
10. Complete and file timely proof of claims for settlements of security class action suits and monitor the processing to ensure claims are received.

Plan Investment Policy

The Plan is maintained to provide retiree medical benefits for the participants and their beneficiaries.

The Trustees (or their delegate) are authorized and permitted by the Plan Document and under Michigan law to engage the services of a Manager(s), Consultant and Custodian and to set the direction for the investments.

The Trustees require that the Manager(s), Consultant and Custodian comply with all applicable laws, rules and regulations. Manager(s) will be given full discretion in managing the funds within this Statement.

Plan Investment Objectives

The Trustees' attitudes regarding Plan assets combine both preservation of capital and moderate risk-taking. The Trustees recognize that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the Plan. The policies and restrictions contained in this Statement should not impede the Manager to attain the overall Plan objectives, nor should they exclude the Manager from appropriate investment opportunities.

The Plan's overall investment objective is to earn an average, annual return of 7.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

The Plan's objective is based on the expected returns under the strategic asset allocation policy, which follows. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of risk (volatility, or return fluctuation) is appropriate given the Plan's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Plan assets will reduce the Plan's investment return volatility.

Asset Allocation Policy

This strategic asset allocation policy is consistent with the achievement of the Plan’s financial needs and overall investment objectives. Asset classes are selected based on the expected long-term returns, individual reward/risk characteristics, and correlation with other asset classes, manger roles, and fulfillment of the Plan’s long-term financial needs.

The Commissioners established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Commissioners selected the target allocation for each asset class based on the Plan's current financial condition, expected future contributions, withdrawals, plan expenses and current investment opportunities, notwithstanding short-term performance. The Commissioners intend to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives, and asset class performance.

Asset Allocation Policy Index

Asset Class	Manager Role	Allocation Range	Target Allocation
U.S. Equities	Active/Passive	35 to 70%	45%
Non-U.S. Equities	Active, Broad or Focused	0 to 20%	10%
Global Fixed Income	Active, Intermediate Diversified	10 to 50%	15%
Commercial Real Estate	Core, value-added, opportunistic, public or private	0 to 20%	20%
Alternative Investments*	Hedge funds, private equity, private debt, real assets	0 to 15%	10%
Cash Equivalents	Active, money market fund	0 to 5%	0%
	Total Fund		100.0%

*Current allocation to Alternative Investments is 0%. The 10% allocation will be invested equally between U.S. Equities and Global Fixed Income (5% each).

The Trustees acknowledge that alternative asset classes are available and intend to periodically evaluate the merits of using different asset classes. The Trustees also recognize the benefits of diversifying manager roles within a given asset class and intend to periodically evaluate this decision as well as the active versus passive management decision.

In order to preserve capital gains and protect principal during periods of market duress, a short-term U.S. government and/or high-quality credit securities fund may be used. Given the infrequent short-term use and specialized purpose of this fund, it is not included in the Policy Index.

Administrative and Investment Review Procedures

Review of Policies

All investment policies and investment management guidelines will be reviewed annually by the Trustees, or whenever circumstances change to the extent that the policies may be ineffective or inappropriate.

General Review

Annually, all those responsible for investment of the Plan's assets shall submit a report or meet with the Retirement Plan Committee to review their activities for the current year and discuss proposed changes that are anticipated.

Review of Investment Performance

The Retirement Plan Committee will monitor the investment performance of each manager and the overall deployment of the Plan's assets. Monitoring will include periodic meetings with the Manager(s), and a quarterly performance evaluation performed by the Consultant.

Each performance evaluation will include:

1. The present and prospective economic climate;
2. Current period and historical, time-weighted rates of return for the overall Plan, including an evaluation against the previously specified performance standards;
3. Current period and historical, time-weighted rates of return for each Manager, including an evaluation against the previously specified performance standards;
4. Additional quantitative measures and analysis will be employed to objectively monitor each Manager's compliance with investment policies and guidelines.
5. An understanding of the strategy being used by each Manager to carry out the current Investment Policy; and
6. Opportunities available within current and prospective asset categories.

The Retirement Plan Committee requests that all documents, exhibits, written materials, etc. to be used during the meetings be submitted in advance.

Rebalancing Policy – Overall Fund Allocation

The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be addressed when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Retirement Plan Committee will formally review the policy and actual allocations in light of anticipated cash flow.

Review of Investment Management

Manager(s) are responsible for frequent and open communication (in writing) with Management and the Consultant on all significant matters pertaining to Investment Policy and the management of the Plan's assets, including, but not limited to:

1. A quarterly report of major changes in each Manager's investment outlook, investment strategy and portfolio structure.
2. Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing of each Manager’s organization.
3. Any investment guidelines which inhibit the fulfillment of a Manager’s fiduciary duties, inappropriately restrict performance, or prevent the manager from meeting their performance standards.

Proxy Voting

The Trustees confer the right to vote proxies to the Manager(s), unless the Manager(s) are otherwise notified by the Retirement Plan Committee in writing. It is expected that Manager(s) will vote for the sole benefit of the Plan participants and beneficiaries, considering those factors that may affect the value of the Plan's investments and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives.

A summary of votes cast shall be submitted to the Retirement Plan Committee on an annual basis. This summary must identify the company, number of shares held, subject proxy issues, actual vote (whether for or against the Retirement Plan Committee's recommendation), and justification.

Directed Brokerage

With regard to directed-brokerage, the Trustees do not require the Manager(s) to trade securities through an individual or set of broker-dealers. The Trustees wish to give the Manager(s) full discretion over their choice of broker-dealers, so long as the Plan's total cost or proceeds of transactions are the most favorable under the circumstances.

Tenure

While the relationship with Manager(s) is expected to be ongoing, the Retirement Plan Committee reserves the right to terminate their relationship with any retained Manager at any time they deem appropriate.

In General Managers are fiduciaries with discretion to implement the guidelines within the direction provided by this Statement..

Managers should present (and obtain approval on) material changes in their investment style, philosophy or process to the Retirement Plan Committee before implementing any changes on behalf of the Plan.

Managers (except commingled funds) are prohibited from using warrants, options, futures, collectibles, leverage, mutual funds (money market funds exempted), LLCs, ETFs, unit investment trusts, margin purchases or short sales, securities of Plan service providers (custodial bank notwithstanding), and loaning or pledging securities (certain index funds exempted).

If a Manager would like to purchase a security that falls outside of this Plan's investment guidelines (commingled funds exempted), or is in doubt as to the goal and intent of these guidelines, they should submit a written request for clarification to the Retirement Plan Committee prior to purchase. Any security not specifically defined or permitted within is prohibited for investment on behalf of this Plan.

Cash Equivalents The cash equivalents Manager may invest in any institutional money market fund ("Fund") that follows the following objectives and policies:

1. The Fund seeks to provide current income while maintaining liquidity and a stable share price of $1.
2. The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, Bankers Acceptances, commercial paper (except ABS commercial paper), and other money market securities.

3. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two nationally recognized rating services (or by one, if only one rating service has rated the security).
4. If unrated, the security rating must be determined by the manager, subject to the limitations in item 3.
5. The Fund maintains a dollar-weighted average maturity of 90 days or less.

Total Plan Performance

The Plan's investment objectives are 1) to equal or exceed a 7.5% annualized return over five-year rolling periods, 2) to equal or exceed the return of the Policy Index (a.k.a. the Plan's performance standard) over five-year rolling periods, and 3) to equal or exceed the return of the median institutional fund with a similar allocation/risk exposure (a.k.a. the Plan’s performance universe) over one-year rolling periods.

The Policy Index is a hypothetical fund invested 40% in U.S. equities, 10% in non-U.S. equities, 40% in Global Fixed Income, and 10% in commercial real estate (the U.S. Equities and the Global Fixed Income allocations will be reduced by 5% each after the Alternative Investments allocation is completed).

Conclusion

It is in the intent of this Statement to state an attitude and/or philosophy which will guide Managers toward the performance desired. It is further intended that these objectives be sufficiently specific, but also sufficiently flexible.

It is the opinion of the Commissioners that these limitations and guidelines will not prevent a Manager from achieving the objectives set forth.

Glossary of Investment Terms

Alternative Investments - These investments are typically made through the purchase of limited partner units in a private limited partnership. Alternative investments include hedge funds, managed futures and commodities, private equity, real assets and other.

Asset Allocation - A process used to determine the optimal allocation of a fund's portfolio among broad asset classes.

Benchmark Index - An index against which the investment performance of a Manager can be compared for the purpose of determining the value added by the Manager. A benchmark portfolio must be of the same style as the Manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Nominal Return - The nominal return on an asset is the rate of return un-adjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically are. The wider the range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e. has a bell shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – The strategic mix of assets designed to accomplish a long-term goal such as funding medical benefits. Generally, policy targets are set for the strategic asset classes with allowable ranges around those targets. The allowable ranges are established to allow flexibility in the management of the investment portfolio.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation – The tactical mix of assets is short-term in nature with a goal of maximizing returns. This strategy is used to take advantage of current market conditions that may be more favorable for one asset class over another.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Universe - A group of Managers/Funds chosen to have an investment style similar to the Manager/Fund and used for comparison purposes.

15649:00015:2789456-3