Board of Water and Light - City of Lansing, Michigan

Financial Report

with Additional Information

June 30, 2014

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light - City of Lansing, Michigan (the "BWL") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the BWL'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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and Pension Fiduciary Funds of the BWL as of June 30, 2014 and 2013 and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 16 to the financial statements, in 2014, Plan adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, defined benefit plan schedule, and retiree benefit plan and trust schedule, as identified on 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BWL's basic financial statements. The accompanying additional information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The additional information, as identified in the table of contents, 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. Such 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 identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

September 4, 2014

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the "BWL"). The BWL includes the consolidated operations of the electric, water, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2014.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 95,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 64 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 55,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving over 162 customers, and a chilled water facility and distribution piping system serving 16 customers in the City of Lansing.

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt service back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were $59.1 and $133.0 million in fiscal years 2014 and 2013, respectively.

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

Detailed financial information for the separate utilities of water, electric, steam, and chilled water can be found in the additional information section beginning on page 51.

Condensed Financial Information (dollars in millions)

	June 30			% Change
	2014	2013	2012	2013 to 2014
Assets				
Utility plant	$ 699.3	$ 684.1	$ 607.1	2.2
Other assets	349.6	372.9	443.6	(6.2)
Total assets	1,048.9	1,057.0	1,050.7	(0.8)
Deferred Outflows of Resources	1.2	1.7	1.6	(29.4)
Liabilities				
Long-term liabilities	383.2	403.4	423.5	(5.0)
Other liabilities	69.5	71.4	65.1	(2.7)
Total liabilities	452.7	474.8	488.6	(4.7)
Deferred Inflows of Resources	18.9	8.1	6.6	133.3
Net Position				
Net investment in capital assets	342.7	342.1	352.7	0.2
Restricted for debt service	76.0	69.7	71.5	9.0
Unrestricted	159.8	163.9	132.9	(2.5)
Net position	**$ 578.5**	**$ 575.7**	**$ 557.1**	0.5

Utility plant increased by $48 million due to normal construction; however, this was offset by depreciation, thus net plant only increased by $14 million.

The BWL's REO Town Headquarters and natural gas cogeneration plant went into commercial operations on July 1, 2013. This $182 million project was completed on schedule and on budget. The facility also helped the BWL conform to its Corporate Sustainability Policy as it received its Gold LEED certification. The BWL was also awarded the American Public Power Association's Energy Innovator Award for the REO Town Cogeneration facility. This facility is among the cleanest and most efficient to operate in the United States.

Other assets decreased by $23 million. The decrease is largely attributable to the disbursement of revenue bond funds during the year to pay for costs associated with construction of the combined-cycle cogeneration plant. The decrease in other assets due to construction spending was partially offset by cash flows generated from operations.

Condensed Financial Information (dollars in millions) (Continued)

	Year Ended June 30			% Change
	2014	2013	2012	2013 to 2014
Results of Operations				
Operating revenues	$ 348.0	$ 331.7	$ 320.1	4.9
Operating expenses	306.8	295.7	286.6	3.8
Nonoperating expense - Net	(38.4)	(17.3)	(11.0)	(122.0)
Changes in Net Position	**$ 2.8**	**$ 18.7**	**$ 22.5**	(85.0)

Operating revenues increased over last year's due to higher wholesale sales.

Operating expenses increased by $11 million from fiscal year 2013 primarily as a result of higher fuel costs associated with electric and steam generation and costs associated to the ice storm that took place in December 2013.

Budget - The BWL commissioners approved a $268.8 million operating expense budget (excluding depreciation and impairment) for fiscal year 2014. Actual expenses (excluding depreciation) were $267.8 million or .41 percent less than budget. The net capital improvement budget was $84 million for fiscal year 2014 and actual net capital expenditures were approximately $56.8 million.

Financing Activities - During fiscal year 2014, there were no significant financing activities.

Other Significant Items - The BWL was recognized by the American Public Power Association with a Reliable Public Power Provider (RP3) Diamond Status designation. The APPA Diamond Status demonstrates the BWL's dedication to providing safe and reliable electric service to our customers.

Statement of Net Position

	June 30 2014	June 30 2013
Assets		
Current Assets		
Restricted cash and cash equivalents (Notes 4 and 11)	$ 51,773,756	$ 45,456,683
Cash and cash equivalents (Notes 4 and 11)	51,545,956	51,922,898
Investments (Notes 1 and 11)	91,030,822	77,555,125
Accounts receivable - Net (Note 1)	23,602,383	21,749,752
Estimated unbilled accounts receivable (Note 1)	17,157,806	16,095,243
Inventories (Note 1)	23,474,266	22,745,993
Other	3,617,737	1,437,259
Total current assets	262,202,726	236,962,953
Other Assets		
Recoverable energy asset (Note 6)	2,797,695	10,554,421
Recoverable revenue of Central Utilities Complex (Note 6)	(4,255,372)	(1,684,590)
Recoverable environmental remediation (Note 6)	23,626,611	28,971,996
Special deposit	14,225,000	14,225,000
Other	4,220,485	4,155,712
Total other assets	40,614,419	56,222,539
Noncurrent Restricted Assets (Investments) (Notes 4 and 11)	46,828,045	79,685,578
Utility Plant (Note 1)		
Water	288,627,287	263,328,526
Electric	773,262,520	758,023,493
Steam	64,685,056	61,507,777
Chilled water	32,917,461	32,798,019
Common facilities	75,026,577	70,715,557
Central Utilities Complex	76,079,000	76,079,000
Total	1,310,597,901	1,262,452,372
Less accumulated depreciation	624,749,511	591,349,081
Net	685,848,390	671,103,291
Construction in progress (Note 3)	13,439,221	12,975,857
Total utility plant	699,287,611	684,079,148
Total assets	1,048,932,801	1,056,950,218
Deferred Outflows of Resources - Bond refunding loss being amortized	1,228,706	1,699,745

Statement of Net Position (Continued)

	June 30	
	2014	2013
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 32,120,138	$ 35,435,303
Current portion of long-term debt (Note 5)	17,824,253	17,180,543
Accrued payroll and related taxes	3,725,544	3,300,986
Customer deposits	2,674,858	2,373,334
Accrued compensated absences (Note 1)	3,916,658	3,797,080
Accrued interest	9,261,217	9,307,268
Total current liabilities	69,522,668	71,394,514
Compensated Absences - Less current portion (Note 1)	7,182,984	7,170,015
Other Long-term Liabilities		
Workers' compensation	2,000,000	2,000,000
Environmental remediation liability (Note 9)	10,356,249	11,288,468
Other	2,327,615	2,696,072
Total other long-term liabilities	14,683,864	15,984,540
Long-term Debt - Less current portion (Note 5)	361,310,213	380,247,920
Total liabilities	452,699,729	474,796,989
Deferred Inflows of Resources - Regulated operations - Revenue intended to cover future costs (Note 6)	18,944,163	8,127,886
Net Position		
Net investment in capital assets	342,717,240	342,072,313
Restricted for debt service (Note 4)	76,037,706	69,720,633
Unrestricted	159,762,669	163,932,142
Total net position	**$ 578,517,615**	**$ 575,725,088**

See Notes to Financial Statements.

Board of Water and Light - City of Lansing, Michigan

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30 2014	Year Ended June 30 2013
Operating Revenues (Note 1)		
Water	$ 37,246,939	$ 37,444,107
Electric	289,154,465	277,157,446
Steam	16,324,128	12,029,340
Chilled water	5,397,411	5,139,836
Total operating revenues	348,122,943	331,770,729
Operating Expenses		
Production:		
Fuel, purchased power, and other operating expenses	165,199,058	158,093,248
Maintenance	17,045,140	18,584,274
Transmission and distribution:		
Operating expenses	11,829,786	6,835,706
Maintenance	11,262,716	8,811,048
Administrative and general	62,484,318	65,095,731
Depreciation and impairment (Note 1)	38,997,186	38,297,875
Total operating expenses	306,818,204	295,717,882
Operating Income	41,304,739	36,052,847
Nonoperating Income (Expenses)		
Investment income	1,866,462	1,094,077
Other (expense) income	(5,974,385)	1,676,960
System capacity fee	9,222,989	9,221,651
Bonded debt interest expense	(15,334,915)	(5,998,530)
Amortization - Central Utilities Complex	(7,642,715)	(7,247,715)
Return on equity (Note 7)	(20,608,093)	(16,120,694)
Other interest expense	(41,555)	(20,908)
Total nonoperating expenses - Net	(38,512,212)	(17,395,159)
Net Income (Changes in Net Position)	2,792,527	18,657,688
Net Position - Beginning of year - As restated (Note 16)	575,725,088	557,067,400
Net Position - End of year	**$ 578,517,615**	**$ 575,725,088**

See Notes to Financial Statements.

Statement of Cash Flows

	Year Ended June 30	
	2014	2013
Cash Flows from Operating Activities		
Cash from customers:		
Water	$ 37,669,771	$ 37,998,434
Electric	296,772,164	268,056,697
Steam	14,041,374	13,358,109
Chilled water	4,960,008	4,405,844
Total cash from customers	353,443,317	323,819,084
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(134,722,274)	(129,845,471)
Other suppliers	(85,526,501)	(70,529,633)
Total cash paid to suppliers	(220,248,775)	(200,375,104)
Cash paid to employees	(51,598,018)	(48,938,729)
Return on equity (Note 7)	(20,608,093)	(16,120,694)
Cash from customer deposits	301,524	186,526
Interest on customer deposits	(41,555)	(20,908)
Net cash provided by operating activities	61,248,400	58,550,175
Cash Flows from Capital and Related Financing Activities		
Proceeds from new borrowings	208,084	26,137,817
Planned, bonded, and annual construction	(59,277,580)	(120,345,859)
Principal payments on debt	(18,031,042)	(43,485,322)
System capacity fees	9,222,989	9,221,651
Interest on debt	(15,380,966)	(6,041,299)
Net cash used in capital and related financing activities	(83,258,515)	(134,513,012)
Cash Flows from Noncapital Financing Activities		
Proceeds from the sale of emissions allowances	25,826	1,365
Proceeds from the Belle River Project and other	6,676,122	1,168,346
Net cash provided by noncapital financing activities	6,701,948	1,169,711
Cash Flows from Investing Activities		
Proceeds from the sale and maturity of investments	160,116,297	240,558,194
Interest received	3,696,174	3,817,729
Purchase of investments	(142,564,173)	(164,278,663)
Net cash provided by investing activities	21,248,298	80,097,260
Net Increase in Cash and Cash Equivalents	5,940,131	5,304,134
Cash and Cash Equivalents - Beginning of year	97,379,581	92,075,447
Cash and Cash Equivalents - End of year	**$ 103,319,712**	**$ 97,379,581**

See Notes to Financial Statements.

	Year Ended June 30	
	2014	2013
Balance Sheet Classifications		
Restricted cash and cash equivalents	$ 51,773,756	$ 45,456,683
Cash and cash equivalents	51,545,956	51,922,898
Cash and Cash Equivalents - End of year	**$ 103,319,712**	**$ 97,379,581**

Reconciliation of Operating Income to Net Cash from Operating Activities:

	Year Ended June 30	
	2014	2013
Operating income	$ 41,304,739	$ 36,052,847
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(20,608,093)	(16,120,694)
Depreciation and impairment	38,997,186	38,297,875
Sewerage collection fees	977,373	893,905
Interest on customer deposits	(41,555)	(20,908)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	(276,896)	(31,487)
Unbilled accounts receivable (Note 1)	(1,062,563)	197,959
Inventories	(728,273)	4,396,806
Customer deposits	301,524	186,526
Special deposit	-	(1,600,000)
Other	5,511,475	(9,224,299)
(Decrease) increase in liabilities:		
Accounts payable and other accrued expenses	(2,771,029)	5,817,264
Other	(355,488)	(295,619)
Total adjustments	19,943,661	22,497,328
Net cash provided by operating activities	**$ 61,248,400**	**$ 58,550,175**

Pension Trust Funds - Statement of Net Position

	June 30	
	2014	2013
Assets		
Receivable - Investment interest receivable	$ 331,781	$ 299,604
Investments at fair value:		
Money market collective trust fund	8,904,375	11,708,441
U.S. government obligations	23,639,025	21,320,442
Corporate bonds and notes	32,558,775	31,490,049
Mutual funds	133,962,556	113,004,660
Stable value	33,607,203	32,243,585
Equities	165,310,705	136,587,441
Current liability	(13,000)	-
Self-directed brokerage account	1,147,041	859,599
Participant notes receivable	4,082,709	3,909,080
Total investments	403,199,389	351,123,297
Net Position - Held in trust for pension and other employee benefits	**$ 403,531,170**	**$ 351,422,901**

Pension Trust Funds - Statement of Changes in Net Position

	Year Ended June 30	
	2014	2013
Increases		
Investment income:		
Net appreciation in fair value of investments	$ 53,252,318	$ 34,227,455
Interest and dividend income	10,112,195	7,689,588
Net investment income	63,364,513	41,917,043
Employer contributions	14,734,353	19,539,305
Participant rollover contributions	1,053,879	2,395,693
Other	270,989	249,450
Total increases	79,423,734	64,101,491
Decreases		
Benefits paid to participants	25,452,920	26,398,589
Loan defaults	119,694	120,280
Participants' note and administrative fees	1,742,851	1,418,106
Total decreases	27,315,465	27,936,975
Net Increase in Net Position Held in Trust	52,108,269	36,164,516
Net Position Held in Trust for Pension and Other Employee Benefits		
Beginning of year	351,422,901	315,258,385
End of year	**$ 403,531,170**	**$ 351,422,901**

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 we have spent certain resources - separate funds allow us 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

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

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

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.

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.

Note 1 - Significant Accounting Policies (Continued)

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

	Carrying Value	
	2014	2013
Designated purpose:		
Coal inventory fluctuation	$ 4,529,062	$ 4,456,466
Litigation, environmental, and uninsured losses	18,306,887	18,013,360
Future water facilities	3,688,651	3,629,487
Subtotal	26,524,600	26,099,313
Special purpose - Future construction	64,188,452	51,763,674
Total	$ 90,713,052	$ 77,862,987

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 2014 and 2013 are as follows:

Note 1 - Significant Accounting Policies (Continued)

	2014	2013
Customer receivables	$ 20,102,775	$ 19,325,882
Sewerage collections	2,545,497	2,412,270
Combined sewer overflow - City of Lansing	(944,583)	(944,583)
Miscellaneous	3,898,694	2,456,183
Less allowance for doubtful accounts	(2,000,000)	(1,500,000)
Net	$ 23,602,383	$ 21,749,752

Special Deposit - The BWL contracted with Consumer's Energy to install a new gas pipeline. The BWL 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. The remaining $14,225,000 has been recorded as a long-term other asset which is anticipated to be refunded over the next five years based on current projections indicating that actual consumption will be much larger than minimum requirements.

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

	2014	2013
Coal	$ 8,234,376	$ 10,521,548
Gas	1,162,717	437,276
Materials and supplies	14,077,173	11,787,169
Total	$ 23,474,266	$ 22,745,993

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

Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with GASB 62 paragraphs 476-500. The resulting provisions for depreciation in 2014 and 2013, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Note 1 - Significant Accounting Policies (Continued)

	Life (Years)	Average Rate (Percent) 2014	Average Rate (Percent) 2013
Classification of utility plant:			
Water	4-100	1.9	1.9
Electric	4-50	3.5	2.6
Steam	5-50	3.3	1.4
Chilled water	5-50	3.5	3.5
Common facilities	4-50	5.7	4.8
Central Utilities Complex	15	6.7	6.7

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

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2014 and 2013:

Capital Asset Activity for Year Ended June 30, 2014

	Capital Assets FY Start	Transfers	Acquisition	Retirement	Capital Assets FY End
Water	$ 263,328,526	$ (1,348)	$ 27,554,400	$ (2,254,291)	$ 288,627,287
Electric	758,023,493	(6,830,315)	27,644,816	(5,575,474)	773,262,520
Steam	61,507,777	(1,653,867)	5,302,400	(471,254)	64,685,056
Chilled	32,798,019	-	119,442	-	32,917,461
Common	70,715,557	8,485,530	4,784,103	(8,958,613)	75,026,577
CUC	76,079,000	-	-	-	76,079,000
Total	$ 1,262,452,372	$ -	$ 65,405,161	$ (17,259,632)	$ 1,310,597,901

Accumulated Depreciation for Year Ended June 30, 2014

	Accum. Deprc. FY Start	Depreciation Transfer	Deprc. / Amort. and Impairment for Year	Depreciation Retirement	Accum. Deprc. FY End
Water	$ (81,568,989)	$ (460)	$ (5,154,328)	$ 1,739,165	$ (84,984,612)
Electric	(398,329,070)	(1,599)	(26,428,251)	4,284,173	(420,474,747)
Steam	(10,489,756)	14,807	(2,092,601)	15,708	(12,551,842)
Chilled	(6,751,047)	-	(1,136,593)	-	(7,887,640)
Common	(38,418,953)	(12,748)	(4,185,413)	4,629,643	(37,987,471)
CUC	(55,791,266)	-	(5,071,933)	-	(60,863,199)
Total	$ (591,349,081)	$ -	$ (44,069,119)	$ 10,668,689	$ (624,749,511)

Note 1 - Significant Accounting Policies (Continued)

Capital Asset Activity for Year Ended June 30, 2013

	Capital Assets FY Start	Transfers	Acquisition	Retirement	Capital Assets FY End
Water	$ 256,836,079	$ -	$ 8,119,310	$ (1,626,863)	$ 263,328,526
Electric	651,857,854	63,584,110	96,213,133	(53,631,604)	758,023,493
Steam	46,152,972	11,458,595	16,788,641	(12,892,431)	61,507,777
Chilled	32,733,046	-	64,973	-	32,798,019
Common	66,654,196	(75,042,705)	87,229,497	(8,125,431)	70,715,557
CUC	76,079,000	-	-	-	76,079,000
Total	$ 1,130,313,147	$ -	$ 208,415,554	$ (76,276,329)	$ 1,262,452,372

Accumulated Depreciation for Year Ended June 30, 2013

	Accum. Deprc. FY Start	Depreciation Transfer	Deprc. / Amort. for Year	Depreciation Retirement	Accum. Deprc. FY End
Water	$ (77,917,659)	$ -	$ (4,939,545)	$ 1,288,215	$ (81,568,989)
Electric	(421,192,359)	(2,698,365)	(27,337,107)	52,898,761	(398,329,070)
Steam	(24,528,042)	2,698,365	(1,502,446)	12,842,367	(10,489,756)
Chilled	(5,618,264)	-	(1,132,783)	-	(6,751,047)
Common	(42,814,977)	-	(3,404,044)	7,800,068	(38,418,953)
CUC	(50,719,333)	-	(5,071,933)	-	(55,791,266)
Total	$ (622,790,634)	$ -	$ (43,387,858)	$ 74,829,411	$ (591,349,081)

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 $11,099,642 and $10,967,095 as of June 30, 2014 and 2013, 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.

Note 1 - Significant Accounting Policies (Continued)

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 one item that qualifies for reporting in this category. The deferred outflows of resources relates to deferred losses on refunding.

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.

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

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

- **Restricted for Debt Service** - Consists of net 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.

Note 1 - Significant Accounting Policies (Continued)

Unbilled Accounts Receivable and Revenue - Unbilled accounts receivable at June 30, 2014 and 2013 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 $9,037,781 and $8,036,147 in 2014 and 2013, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

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

The BWL recognized a gain of $25,826 and $1,365 as of June 30, 2014 and 2013, respectively, from the sale of allowances and has recorded an intangible asset of $0 as of June 30, 2014 and 2013 for purchased allowances related to future periods.

Significant Customers - The BWL has one customer which accounts for approximately 9 percent of the BWL's total revenue for the years ended June 30, 2014 and 2013.

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

Note 1 - Significant Accounting Policies (Continued)

Reclassifications - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. See Note 16 for further information.

Note 2 - Rate Matters

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

Note 3 - Construction in Progress

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete various projects is approximately $52,122,000 and $27,765,000 at June 30, 2014 and 2013, respectively, including commitments on existing construction contracts approximating $19,257,000 and $2,541,000 at June 30, 2014 and 2013, 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. Refer to Note 9 for these commitments.

Note 4 - Restricted Assets

Restricted assets are required under the 2002B, 2003A, 2005A, 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, 2014	Carrying Value 2014	Carrying Value 2013
Current:			
Operations and Maintenance Fund	$ 28,714,000	$ 80,126,021	$ 74,999,639
Bond and Interest Redemption Fund	23,059,756	23,193,691	22,379,942
Total current	51,773,756	103,319,712	97,379,581
Noncurrent:			
2011A Construction Fund	22,564,095	22,564,095	55,421,628
Bond Reserve Fund	24,263,950	24,263,950	24,263,950
Total noncurrent	46,828,045	46,828,045	79,685,578
Total	$ 98,601,801	$ 150,147,757	$ 177,065,159

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, 2014.

The restrictions of the various funds are as follows:

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

- **Bond and Interest Redemption Fund** - Restricted for payment of the current portion of bond principal and interest on the 2002B, 2003A, 2005A, 2008A, 2009A, 2011A, 2012A, and 2013A Revenue Bonds.

- **2011A Construction Fund** - Restricted for payment of costs of the bonded projects and costs of issuance of the bonds.

- **Bond Reserve Fund** - Shall include sufficient funds to cover the maximum annual principal and interest requirements of the 2002B, 2003A, 2005A, 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, 2014, the cost basis in the fund was $24,581,720.

Note 5 - Long-term Debt

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

	2014	2013
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, 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%	$ 21,085,000	$ 21,085,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, 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%	16,960,000	17,370,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2011A, due in annual principal installments beginning July 1, 2015 through July 1, 2041, plus interest at rates ranging from 3.00% to 5.50%	250,000,000	250,000,000
Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond, Series 2009A, due in annual principal installments due serially through July 1, 2016, plus interest at a rate of 5.34%	18,985,000	26,360,000
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%	39,990,000	39,995,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2005A, due serially beginning July 1, 2011 and continuing through July 1, 2014, plus interest at rates ranging from 4.00% to 5.00%	5,520,000	8,240,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2003A, due serially through July 1, 2026, plus interest at rates ranging from 4.00% to 5.00%	-	465,000

Note 5 - Long-term Debt (Continued)

	2014	2013
Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.50% to 3.75%	$ -	$ 2,410,000
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%	10,173,301	10,784,894
Promissory note, due in monthly installments of $25,177.37 including interest at 4.85%, with final payment on December 31, 2013	-	148,950
Township contract water service obligation with interest due semiannually at 6.00% and portions of principal due annually, with final payment in May 2015	40,000	75,000
Granger III Corporation for ash hauling services due in monthly installments ranging from $150,000 to $250,000	4,650,712	7,472,628
City of Lansing Agreement for the Enhancement of the Flood warning system $10,000 annually with final payment in 2016.	20,000	-
Total	367,424,013	384,406,472
Less current portion	(17,824,253)	(17,180,543)
Plus current portion of premium on bonds	966,576	1,077,185
Plus unamortized premium	10,743,877	11,944,806
Total long-term portion	$ 361,310,213	$ 380,247,920

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be $423,049,941 and $411,284,231 at June 30, 2014 and 2013, respectively.

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

Note 5 - Long-term Debt (Continued)

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

	Principal	Interest	Total
2015	$ 17,824,253	$ 17,636,333	$ 35,460,586
2016	13,299,345	16,875,993	30,175,338
2017	11,523,300	16,224,949	27,748,249
2018	8,860,005	15,765,701	24,625,706
2019	9,244,935	15,491,004	24,735,939
2020-2024	42,101,433	73,004,662	115,106,095
2025-2029	53,034,691	62,211,940	115,246,631
2030-2034	66,211,051	48,162,503	114,373,554
2035-2039	83,750,000	30,364,750	114,114,750
2040-2042	61,575,000	6,894,250	68,469,250
Total	$ 367,424,013	$ 302,632,085	$ 670,056,098

The 2002B, 2003A, 2005A, 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, 2014, the balance of this reserve account was $24,581,720 (see Note 4). 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.

During the fiscal year ended June 30, 2013, the BWL issued $21,085,000 Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Bond Series 2013A with an interest rate of 2.0 to 5.0 percent. The proceeds of these bonds, which were issued at a premium of about $3.3m, were used to advance refund $25,730,000 of outstanding 2003A revenue bonds with an interest rate of 4.125 to 5.0 percent. The net proceeds of $24,326,835 (after payment of $321,138 in underwriting fees, insurance, and other issuance costs) plus an additional $2,012,607 of Bond reserve and Bond Redemption Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the BWL's long-term debt obligations. The advance refunding reduced total debt service payments over the next 14 years by $7,017,944, which represents an economic gain of $3,921,686.

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 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 BWL has defeased several bond issues in prior years. The proceeds of the new bonds were placed in an escrow deposit fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow deposit fund assets and the liability for the defeased bonds are not included in the financial statements. The outstanding balance of all defeased liabilities is $0 and $25,730,000 at June 30, 2014 and 2013, respectively.

The Series 2008A Bonds maturing in the years 2012 to 2028, inclusive, shall not be subject to optional redemption prior to maturity. The bonds, or portions of bonds in multiples of $5,000 maturing in the years 2019 to 2032, inclusive, shall be subject to redemption at the option of the BWL in such order of maturity as the BWL shall determine and within a single maturity by lot on any date on or after July 1, 2018, at par plus accrued interest to the date fixed for redemption.

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

The Series 2003A Bonds maturing in the years 2004 to 2013, inclusive, shall not be subject to redemption prior to maturity. Series 2003A Bonds due on or after July 1, 2014 to 2026, inclusive, were redeemed through the proceeds of the Series 2013A Bond issuance.

The Series 2002B Bonds shall not be subject to redemption prior to maturity. Series 2002A Bonds due on or after July 1, 2013 were redeemed through the proceeds of the 2012A Bond issuance.

Note 5 - Long-term Debt (Continued)

The long-term debt activity for the year ended June 30, 2014 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	$ 378,946,991	$ 18,481,472	$ 397,428,463
Additions	-	208,084	208,084
Reductions	(14,696,528)	(3,805,553)	(18,502,081)
Ending balance	$ 364,250,463	$ 14,884,003	$ 379,134,466
Due within one year	$ 14,155,000	$ 3,669,253	$ 17,824,253

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 $670,056,098. During the current year, net revenues of the BWL were $57,320,261 compared to the annual debt requirements of $28,719,915.

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 $(4,255,372) and $(1,684,590) at June 30, 2014 and 2013, 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.

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, 2014 and 2013, $20,848,000 in total costs has been recoverable as a regulatory asset. An increase in the asset and liability was made during the years ended June 30, 2014 and 2013 of $7,000,000.

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

As of June 30, 2014 and 2013, the amounts remaining to be recovered in rates were $1,470,035 and $7,030,823, 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, 2014 and 2013 was $17,793,606. A reduction in the asset and liability was made during the year ended June 30, 2013 of $4,400,000. 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, 2014 and 2013 for additional sites was $4,362,970 and $4,147,567, 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 $2,797,695 and $10,554,421 at June 30, 2014 and 2013, respectively. This amount represents costs to be billed to customers in future years because actual costs of providing utilities were higher than the costs incorporated into the BWL's rates.

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

During the year ended June 30, 2010, the Board of Commissioners approved the implementation of 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 $6,421,464 and $5,484,627 as of June 30, 2014 and 2013, respectively.

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

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 $2,422,987 and $2,643,259 as of June 30, 2014 and 2013, 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 14). This resulted in recoverable inflow of resources of $10,099,712 as of June 30, 2014 when the related capital asset was moved into depreciable assets. The BWL will recognize this as revenue monthly over the life of the new equipment to offset depreciation expense.

Note 7 - Transactions with the City of Lansing, Michigan

Operations - The BWL recognized revenue of $8,075,705 and $9,160,105 in 2014 and 2013, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of $924,809 and $601,664 in 2014 and 2013, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of $968,545 and $898,269 in 2014 and 2013, respectively, included in other income.

Payment in Lieu of Taxes - Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002, the formula to calculate the amount owed to the City for payment in lieu of taxes will also include wholesale revenue generated from the BWL's electric, water, steam, and chilled water utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City $20,608,093 in 2014 and $16,120,694 in 2013 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").

Defined Benefit Plan

The Defined Benefit Plan was established by the BWL in 1939 under Section 5-203 of the City Charter and has been revised several times, with the latest revision taking effect on July 1, 2010.

The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and the Defined Contribution Plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in the Defined Benefit Plan were required to make an irrevocable choice to either remain in the Defined Benefit Plan or move to the newly established Defined Contribution Plan. Those participants who elected to move to the Defined Contribution Plan received lump-sum distributions from the Defined Benefit Plan, which were rolled into their accounts in the new Defined Contribution Plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established Defined Contribution Plan.

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

A participant's interest is fully vested when the participant has been credited with seven years of vesting service. The Defined Benefit Plan provides for an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.65 percent of the average annual pay during the last 10 years of service, paid in equal monthly installments.

Effective July 1, 1996, the Defined Benefit Plan was amended to provide active employees as of the effective date an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.8 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

Note 8 - Retirement Plans (Continued)

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, 2014 and 2013.

Basis of Accounting - The Defined Benefit Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Benefits are recognized when due and payable in accordance with the terms of the Defined Benefit Plan.

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

Funding Policy and Annual Pension Cost - The BWL's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the years ended June 30, 2014, 2013, and 2012 were determined using an attained age projected unit credit actuarial funding method. Overfunded actuarial accrued liabilities were amortized as a level dollar reduction of contributions over a period of 15 years in 2014, 2013, and 2012. No participant contributions are required.

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

The annual pension cost was determined as part of an actuarial valuation of the Defined Benefit Plan as of February 28, 2014, 2013, and 2012. Significant actuarial assumptions used in determining the annual pension cost include (a) rate of return on the investment of present and future assets of 7.5 percent in 2014, 2013, and 2012, compounded annually, (b) projected salary increases ranging from 6.44 to 10.26 percent in 2014, 2013, and 2012, compounded annually, depending on age, attributable to inflation, and (c) the assumption that benefits will not increase after retirement.

Note 8 - Retirement Plans (Continued)

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 cost of living adjustments. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

	2014	2013	2012
Annual pension cost	$ -	$ -	$ -
Percentage of APC contributed	n/a	n/a	n/a
Net pension obligation	-	-	-

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

	2014	2013	2012
Normal cost	$ 333,022	$ 397,079	$ 477,418
Amortization of the (overfunded)/ underfunded actuarial accrued liability	(7,916,950)	(6,840,144)	(1,190,311)
Total target contribution	(7,583,928)	(6,443,065)	(712,893)
Interest factor	1.0750	1.0750	1.0750
Annual required contribution	$ -	$ -	$ -

Based on the overfunded status of the Defined Benefit Plan through June 30, 2014, no employer contributions were required.

Note 8 - Retirement Plans (Continued)

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

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/28/2011	$ 85,587	$ 74,292	$ (11,295)	115.20%	$ 2,398	(471.0)
2/28/2012	79,142	72,302	(6,840)	109.46%	2,101	(325.6)
2/28/2013	76,395	68,478	(7,917)	111.56%	1,684	(470.1)
2/28/2014	80,182	70,042	(10,140)	114.48%	1,225	(827.8)

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

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

Defined Contribution Plan

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

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

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

Note 8 - Retirement Plans (Continued)

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, 2014 and 2013, the BWL contributed $5,467,824 and $5,494,101, 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.*

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 698 participants eligible to receive benefits at June 30, 2014 and 692 participants eligible at June 30, 2013.

Note 8 - Retirement Plans (Continued)

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, 2014 and 2013, the cost to BWL of maintaining the Retiree Benefit Plan was $9,266,529 and $14,045,204, respectively, of which $0 and $4,521,084, respectively, was contributed to the VEBA trust and $9,266,529 and $9,524,120, 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.

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. No participant contributions are required.

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

Note 8 - Retirement Plans (Continued)

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.

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 5.0 to 9.0 percent for the years ended June 30, 2014 and 2013.

Contribution trend information is as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	$ 17,300	$ 17,236	100%	$ (150)
6/30/2012	15,744	15,854	101%	(260)
6/30/2013	13,994	14,045	100%	(311)
6/30/2014	9,202	9,268	101%	(377)

Note 8 - Retirement Plans (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 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, and (c) amortization method level dollar over a 30-year period.

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

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
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%

Other Postretirement Benefits

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

Note 9 - Commitments and Contingencies

At June 30, 2014 and 2013, the BWL has two letters of credit in the amounts of $817,220 and $1,000,000 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

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 $10,312,492 and $11,244,715 for the years ended June 30, 2014 and 2013, 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 previously announced a program to upgrade existing lead pipes throughout the BWL service area. The program is scheduled to be complete in three years at an estimated remaining cost of $10,669,000. There is no legal obligation to replace the pipes, therefore no liability has been recorded.

The BWL has obtained financing to build a new combined-cycle cogeneration facility. The project has an estimated cost to complete of $22,225,000, including commitments on this project of $3,172,000. This project was funded through the 2011A Bond.

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, 2014 and 2013 in regard to specific pending legal cases.

Note 9 - Commitments and Contingencies (Continued)

The BWL has entered into contracts to purchase coal totaling $14,197,917 through December 31, 2016. 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 $34,256,250 through December 2016.

Note 10 - Power Supply Purchase

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

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

Year	Debt Service	Estimated Fixed Operating Costs	Total Required
2015	$ 17,675,374	$ 12,389,478	$ 30,064,852
2016	17,675,628	12,678,894	30,354,522
2017	17,676,913	12,976,026	30,652,939
2018	8,838,770	13,126,548	21,965,318
Total	$ 61,866,685	$ 51,170,946	$ 113,037,631

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.

Note 10 - Power Supply Purchase (Continued)

The BWL recognized expenses for 2014 and 2013 of $52,549,164 and $52,914,412, 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 from these contracts is estimated at $140,000,000.

Note 11 - Cash, Investments, and Fair Value Disclosure

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

Note 11 - 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:

Risks at June 30, 2014

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At year end, the BWL had $12,590,239 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 year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	$ 102,168,958	Counterparty

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

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

	Fair Value	Less than 1 Year	1-5 Years	6-10 years
Pooled investment funds (if not 2a-7)	$ 59,126,052	$ 59,126,052	$ -	$ -
U.S. government or agency bond or note	101,633,888	5,753,547	94,780,419	1,099,922
Commercial paper	29,003,071	29,003,071	-	-

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	$ 23,639,025	11.87
Money market trust funds	8,662,335	Less than 1 year
Corporate bonds	32,558,775	14.02

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

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	$ 59,126,052	AAA	S&P
Commercial paper	1,365,956	A1/P1	S&P
	4,994,396	A1+/P1	S&P
	2,996,083	A1/P1	S&P
	4,993,739	A1/P1	S&P
	1,313,050	A1/P1	S&P
	3,246,733	A1/P1	S&P
	4,098,924	A1+/P1	S&P
	2,997,393	A1+/P1	S&P
	2,996,798	A1/P1	S&P

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

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

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 133,962,556	Not Rated	Not Rated
Government or agency bond	7,354,686	Not Rated	Not Rated
Stable value	33,607,203	AA	S&P
Corporate bonds	-	Not Rated	Not Rated
Corporate bonds	3,689,662	AAA	S&P
Corporate bonds	12,190,600	AA+	S&P
Corporate bonds	627,423	AA	S&P
Corporate bonds	518,898	AA-	S&P
Corporate bonds	1,426,951	A+	S&P
Corporate bonds	2,412,053	A	S&P
Corporate bonds	3,918,625	A-	S&P
Corporate bonds	2,300,585	BBB+	S&P
Corporate bonds	1,884,206	BBB	S&P
Corporate bonds	1,392,016	BBB-	S&P
Corporate bonds	217,513	BB+	S&P
Corporate bonds	315,865	BB	S&P
Corporate bonds	171,619	BB-	S&P
Corporate bonds	80,813	B+	S&P
Corporate bonds	63,000	B	S&P
Corporate bonds	142,363	B-	S&P
Corporate bonds	-	CCC+	S&P
Corporate bonds	1,141,078	CCC	S&P
Corporate bonds	65,505	D	S&P

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

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

Risks at June 30, 2013

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, 2013, the BWL had $27,131,331 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 year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	$ 93,329,047	Counterparty

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

	Fair Value	Less than 1 Year	1-5 Years	6-10 years
Pooled investment funds (if not 2a-7)	$ 96,294,877	$ 96,294,877	$ -	$ -
U.S. government or agency bond or note	92,055,388	46,321,200	44,618,641	1,115,547
Commercial paper	29,431,740	29,431,740	-	-

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

Interest Rate Risk - Pension Trust Funds

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	$ 21,320,442	12.18
Money market trust funds	8,820,848	Less than 1 year
Corporate bonds	31,490,049	14.67

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

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	$ -	AAA	S&P
Commercial paper	1,527,287	A-1	S&P
	3,997,333	A-1	S&P
	2,995,227	A-2	S&P
	1,357,949	A-1	S&P
	4,992,636	A-1	S&P
	3,960,314	A-1	S&P
	1,514,926	A-1	S&P
	1,083,610	A-2	S&P
	3,007,291	A-1	S&P
	4,995,167	A-1	S&P

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

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

Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 113,004,660	Not Rated	Not Rated
Government or agency bond	21,320,442	Not Rated	Not Rated
Stable value	32,243,585	AA	S&P
Corporate bonds	-	Not Rated	Not Rated
Corporate bonds	4,331,818	AAA	S&P
Corporate bonds	11,451,540	AA+	S&P
Corporate bonds	420,815	AA	S&P
Corporate bonds	609,309	AA-	S&P
Corporate bonds	1,853,758	A+	S&P
Corporate bonds	2,142,513	A	S&P
Corporate bonds	3,433,411	A-	S&P
Corporate bonds	1,139,634	BBB+	S&P
Corporate bonds	2,610,419	BBB	S&P
Corporate bonds	1,116,359	BBB-	S&P
Corporate bonds	295,014	BB+	S&P
Corporate bonds	354,566	BB	S&P
Corporate bonds	256,563	BB-	S&P
Corporate bonds	19,350	B+	S&P
Corporate bonds	179,601	B	S&P
Corporate bonds	254,321	B-	S&P
Corporate bonds	-	CCC+	S&P
Corporate bonds	973,371	CCC	S&P
Corporate bonds	47,687	CC	S&P

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

Note 12 - 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 2002A and B, 2003A, 2005A, 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, 2014 and 2013. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

Note 13 - Risk Management and Insurance

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

Note 13 - 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		
	2014	2013	2012	2014	2013	2012
Unpaid claims - Beginning of year	$ 2,000,000	$ 2,000,000	$ 2,300,000	$ 1,590,814	$ 1,606,994	$ 1,520,649
Incurred claims, incurred but not reported	864,854	1,077,383	1,150,867	18,340,955	18,644,371	18,766,360
Claim payments	(864,854)	(1,077,383)	(1,450,867)	(18,294,493)	(18,660,551)	(18,680,015)
Unpaid claims - End of year	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 1,637,276	$ 1,590,814	$ 1,606,994

Note 14 - 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 estimate to replace or repair the damaged equipment is approximately $23 million; substantially all will be recouped from our insurance carrier. To date $20,193,626 in funds are committed, of which $18,865,256 have been expended.

Note 15 - Upcoming Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension asset that will be recorded on the statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The BWL is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Note 16 - Change in Accounting

During the current year, the BWL adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	As of June 30, 2014	As of June 30, 2013	As of July 1, 2012	Prior Reporting Classification/ Treatment	New Classification After Adoption of GASB Statement No. 65
Deferred amounts on debt refundings	$ 1,228,706	$ 1,699,745	$ -	Adjustment to the bonds payable liability	Deferred outflow of resources
Bond issuance costs	-	321,138	2,450,931	Adjustment to the bonds payable liability	Outflow of resources (an expense)
Regulated operations - Revenue intended to cover future costs	8,844,451	18,944,163	-	Liability	Deferred inflow of resources

Note 16 - Change in Accounting (Continued)

As this statement is applied retroactively, the financial statements for the years ended June 30, 2013 and 2012 have been restated to apply the changes noted associated with bond issuance costs.

The effect of this change is as follows:

Net Position - July 1, 2012, as originally reported	$ 559,518,331
GASB 65 adjustment to write off unamortized bond issuance costs as of July 1, 2012 (included in long-term debt liability)	(1,624,079)
GASB 65 adjustment to write off unamortized bond issuance as of July 1, 2012 (included in utility plant asset)	(826,852)
Net Position - July 1, 2012, as restated	$ 557,067,400

Net Income - Year ended June 30, 2013, as originally reported	$ 18,787,670
GASB 65 adjustment to eliminate amortization of bond issuance costs for the year ended June 30, 2013 (included in bonded debt interest expense)	173,108
GASB 65 adjustment to eliminate depreciation expense related to bond issuance costs included in utility plant asset for the year ended June 30, 2013 (included in depreciation and impairment expense)	18,048
GASB 65 adjustment to eliminate new bond issuance costs recorded as an adjustment to the long-term debt liability during the year ended June 30, 2013 (included in bonded debt interest expense)	(321,138)
Net Income - Year Ended June 30, 2013, as restated	$ 18,657,688

During the current year, the BWL and Pension Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the footnotes of the separately issued Defined Benefit Pension Plan statements have changed considerably along with the related schedules in the required supplemental information of the separately issued statements.

Required Supplemental Information

Required Supplemental Information
Defined Benefit Plan Schedule
Years Ended June 30, 2014 and 2013

The schedule of funding progress as determined by an actuarial valuation used for purposes of determining the annual required contribution is as follows:

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/28/2011	$ 85,587	$ 74,292	$ (11,295)	115.20%	$ 2,398	(471.0)
2/28/2012	79,142	72,302	(6,840)	109.46%	2,101	(325.6)
2/28/2013	76,395	68,478	(7,917)	111.56%	1,684	(470.1)
2/28/2014	80,182	70,042	(10,140)	114.48%	1,225	(827.8)

The schedule of funding progress is as follows:

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
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%

Additional Information

Income Available for Revenue Bond Debt Retirement

	Year Ended June 30	
	2014	2013
Income - Before capital contributions per statement of revenues, expenses, and changes in net assets	$ 2,792,527	$ 18,657,688
Adjustments to Income		
Depreciation and impairment	38,997,186	38,297,875
Interest on long-term debt:		
Notes	41,555	20,908
Revenue bonds	15,334,915	5,998,530
Total additional income	54,373,656	44,317,313
Income Available for Revenue Bonds and Interest Redemption	**$ 57,166,183**	**$ 62,975,001**
Debt Retirement Pertaining to Revenue Bonds		
Principal	$ 13,385,000	$ 12,770,000
Interest	15,334,915	5,998,530
Total	**$ 28,719,915**	**$ 18,768,530**
Percent Coverage of Revenue Bonds and Interest Requirements	**199**	**336**

	Combined		Water	
	2014	2013	2014	2013
Operating Revenues				
Water	$ 37,246,939	$ 37,444,107	$ 37,246,939	$ 37,444,107
Electric:				
Retail	257,333,075	261,815,172	-	-
Sales for resale	31,821,390	15,342,274	-	-
Steam	16,324,128	12,029,340	-	-
Chilled water	5,397,411	5,139,836	-	-
Total operating revenues	348,122,943	331,770,729	37,246,939	37,444,107
Operating Expenses				
Production:				
Fuel, purchased power, and other operating expenses	165,199,058	158,093,248	8,957,388	8,532,692
Maintenance	17,045,140	18,584,274	2,981,167	2,943,693
Transmission and distribution:				
Operating expenses	11,829,786	6,835,706	1,478,877	1,521,023
Maintenance	11,262,716	8,811,048	3,554,104	2,822,156
Administrative and general	62,484,318	65,095,731	10,834,267	10,332,105
Depreciation and impairment	38,997,186	38,297,875	6,529,406	5,959,530
Total operating expenses	306,818,204	295,717,882	34,335,209	32,111,199
Operating Income	41,304,739	36,052,847	2,911,730	5,332,908
Nonoperating Income (Expenses)				
Investment income	1,866,462	1,094,077	279,183	57,828
Other income	(5,974,385)	1,676,960	(199,915)	961,528
System capacity fee	9,222,989	9,221,651	807,934	807,817
Bonded debt interest expense	(15,334,915)	(5,998,530)	(2,299,249)	(2,643,682)
Amortization - Central Utilities Complex	(7,642,715)	(7,247,715)	(669,502)	(634,900)
Payment in lieu of taxes	(20,608,093)	(16,120,694)	(2,230,811)	(1,856,000)
Other interest expense	(41,555)	(20,908)	(4,039)	(123)
Total nonoperating expense	(38,512,212)	(17,395,159)	(4,316,399)	(3,307,532)
Net Income (Loss)	**$ 2,792,527**	**$ 18,657,688**	**$ (1,404,669)**	**$ 2,025,376**

Detail of Statement of Revenues and Expenses
Years Ended June 30, 2014 and 2013

Electric		Steam		Chilled Water	
2014	2013	2014	2013	2014	2013
$ -	$ -	$ -	$ -	$ -	$ -
257,333,075	261,815,172	-	-	-	-
31,821,390	15,342,274	-	-	-	-
-	-	16,324,128	12,029,340	-	-
-	-	-	-	5,397,411	5,139,836
289,154,465	277,157,446	16,324,128	12,029,340	5,397,411	5,139,836
145,645,050	141,537,166	9,019,050	6,457,153	1,577,570	1,566,237
13,322,981	14,647,008	548,042	705,815	192,950	287,758
10,057,156	5,056,249	293,753	258,434	-	-
7,262,321	5,629,850	421,252	337,623	25,039	21,419
50,286,259	52,038,554	1,109,538	2,278,476	254,254	446,596
28,887,165	29,383,080	2,200,476	1,641,827	1,380,139	1,313,438
255,460,932	248,291,907	13,592,111	11,679,328	3,429,952	3,635,448
33,693,533	28,865,539	2,732,017	350,012	1,967,459	1,504,388
1,386,482	848,321	123,840	168,915	76,957	19,013
(2,846,705)	521,021	(2,920,159)	(14,410)	(7,606)	208,821
7,712,263	7,711,144	702,792	702,690	-	-
(11,828,911)	(1,731,534)	(428,751)	(114,947)	(778,004)	(1,508,367)
(6,390,838)	(6,060,539)	(582,375)	(552,276)	-	-
(17,200,740)	(13,477,441)	(849,248)	(530,710)	(327,294)	(256,543)
(37,516)	(20,783)	-	(2)	-	-
(29,205,965)	(12,209,811)	(3,953,901)	(340,740)	(1,035,947)	(1,537,076)
$ 4,487,568	**$ 16,655,728**	**$ (1,221,884)**	**$ 9,272**	**$ 931,512**	**$ (32,688)**

Detail of Statement of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
Net Position - July 1, 2012, as originally reported	$ 559,518,331	$ 92,447,575	$ 471,460,023	$ (3,706,473)	$ (682,794)
GASB 65 Adjustment (Note 16)	(2,450,931)	(416,140)	(1,613,506)	(322,535)	(98,750)
Net Position - July 1, 2012, as restated	557,067,400	92,031,435	469,846,517	(4,029,008)	(781,544)
Income (loss) before contributions, as restated	18,657,688	2,218,843	16,714,403	25,920	(301,478)
Net Position - June 30, 2013, as restated	575,725,088	94,250,278	486,560,920	(4,003,088)	(1,083,022)
Income (loss) before contributions	2,792,527	(1,404,669)	4,487,568	(1,221,884)	931,512
Net Position - June 30, 2014	**$ 578,517,615**	**$ 92,845,609**	**$ 491,048,488**	**$ (5,224,972)**	**$ (151,510)**

Pension Trust Funds - Detail of Statement of Net Position

	June 30, 2014			
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - Investment interest receivable	$ -	$ 120,156	$ 211,625	$ 331,781
Investments at fair value:				
Money market collective trust fund	-	3,192,936	5,711,439	8,904,375
U.S. government obligations	-	7,354,686	16,284,339	23,639,025
Corporate bonds and notes	-	11,844,906	20,713,869	32,558,775
Mutual funds	130,442,786	1,260,129	2,259,641	133,962,556
Stable value	33,607,203	-	-	33,607,203
Equities	-	56,770,168	108,540,537	165,310,705
Current liability	-	(13,000)	-	(13,000)
Self-directed brokerage account	1,147,041	-	-	1,147,041
Participant notes receivable	4,082,709	-	-	4,082,709
Total investments	169,279,739	80,409,825	153,509,825	403,199,389
Net Position - Held in trust for pension and other employee benefits	**$ 169,279,739**	**$ 80,529,981**	**$ 153,721,450**	**$ 403,531,170**

	June 30, 2013			
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Assets				
Receivable - Investment interest receivable	$ -	$ 113,980	$ 185,624	$ 299,604
Investments at fair value:				
Money market collective trust fund	-	3,209,522	8,498,919	11,708,441
U.S. government obligations	-	8,301,126	13,019,316	21,320,442
Corporate bonds and notes	-	12,168,664	19,321,385	31,490,049
Mutual funds	109,882,178	1,171,547	1,950,935	113,004,660
Stable value	32,243,585	-	-	32,243,585
Equities	-	50,459,178	86,128,263	136,587,441
Current liability	-	-	-	-
Self-directed brokerage account	859,599	-	-	859,599
Participant notes receivable	3,909,080	-	-	3,909,080
Total investments	146,894,442	75,310,037	128,918,818	351,123,297
Net Position - Held in trust for pension and other employee benefits	**$ 146,894,442**	**$ 75,424,017**	**$ 129,104,442**	**$ 351,422,901**

Pension Trust Funds - Detail of Statement of Changes in Net Position
Year Ended June 30, 2014

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in fair value of investments	$ 17,907,856	$ 12,570,312	$ 22,774,150	$ 53,252,318
Interest and dividend income	5,545,714	1,672,852	2,893,629	10,112,195
Net investment income	23,453,570	14,243,164	25,667,779	63,364,513
Employer contributions	5,467,824	-	9,266,529	14,734,353
Participant rollover contributions	1,053,879	-	-	1,053,879
Other	270,989	-	-	270,989
Total increases	30,246,262	14,243,164	34,934,308	79,423,734
Decreases				
Benefits paid to participants	7,645,116	8,541,275	9,266,529	25,452,920
Loan defaults	119,694	-	-	119,694
Participants' note and administrative fees	96,155	595,925	1,050,771	1,742,851
Total decreases	7,860,965	9,137,200	10,317,300	27,315,465
Net Increase in Net Position Held in Trust	22,385,297	5,105,964	24,617,008	52,108,269
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	146,894,442	75,424,017	129,104,442	351,422,901
End of year	**$ 169,279,739**	**$ 80,529,981**	**$ 153,721,450**	**$ 403,531,170**

Pension Trust Funds - Detail of Statement of Changes in Net Position
Year Ended June 30, 2013

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
Increases				
Investment income:				
Net appreciation in fair value of investments	$ 12,924,636	$ 8,364,770	$ 12,938,049	$ 34,227,455
Interest and dividend income	3,110,985	1,805,077	2,773,526	7,689,588
Total investment income	16,035,621	10,169,847	15,711,575	41,917,043
Employer contributions	5,494,101	-	14,045,204	19,539,305
Participant rollover contributions	2,395,693	-	-	2,395,693
Other	249,450	-	-	249,450
Total increases	24,174,865	10,169,847	29,756,779	64,101,491
Decreases				
Benefits paid to participants	9,097,209	7,777,260	9,524,120	26,398,589
Loan defaults	120,280	-	-	120,280
Participants' note and administrative fees	83,978	535,567	798,561	1,418,106
Total decreases	9,301,467	8,312,827	10,322,681	27,936,975
Net Increase in Net Position Held in Trust	14,873,398	1,857,020	19,434,098	36,164,516
Net Position Held in Trust for Pension and Other Employee Benefits				
Beginning of year	132,021,044	73,566,997	109,670,344	315,258,385
End of year	**$ 146,894,442**	**$ 75,424,017**	**$ 129,104,442**	**$ 351,422,901**