



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

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**Financial Report  
with Additional Information  
June 30, 2015**

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

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## Independent Auditor's Report

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

### **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, 2015 and 2014, 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, 2015 and 2014 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 2015, the BWL adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. 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 and other required supplemental information as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 & Morse, PLLC*

August 31, 2015

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

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

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

### **Overview of Business**

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 63 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 164 customers, and a chilled water facility and distribution piping system serving 19 customers in the City of Lansing.

### **Capital Expenditures**

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt service back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were \$65.9 and \$59.1 million in fiscal years 2015 and 2014, 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 60.

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

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information (dollars in millions)

	June 30			% Change
	2015	2014	2013 *	2014 to 2015
<b>Assets</b>				
Utility plant	\$ 715.0	\$ 699.3	\$ 684.1	2.2
Other assets	<u>337.9</u>	<u>360.8</u>	<u>372.9</u>	(6.3)
Total assets	1,052.9	1,060.1	1,057.0	(0.7)
<b>Deferred Outflows of Resources</b>	1.0	1.2	1.7	(16.7)
<b>Liabilities</b>				
Long-term liabilities	368.6	383.2	403.4	(3.8)
Other liabilities	<u>65.2</u>	<u>69.5</u>	<u>71.4</u>	(6.2)
Total liabilities	433.8	452.7	474.8	(4.2)
<b>Deferred Inflows of Resources</b>	<u>24.9</u>	<u>26.1</u>	<u>8.1</u>	(4.6)
<b>Net Position</b>				
Net investment in capital assets	354.7	342.7	342.1	3.5
Restricted for debt service	77.7	76.0	69.7	2.2
Unrestricted	<u>162.8</u>	<u>163.8</u>	<u>163.9</u>	(0.6)
Net position	<u>\$ 595.2</u>	<u>\$ 582.5</u>	<u>\$ 575.7</u>	2.2

\* Note: GASB 68 was implemented in FY15, but was not reflected retroactively in FY13 in the table above.

Utility plant increased by \$55 million due to normal construction; however, this was offset by depreciation, thus net plant only increased by \$15.7 million.

Other assets decreased by \$22.9 million. The decrease is largely attributable to the disbursement of revenue bond funds during the year to pay for costs of capital improvements.

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

## Management's Discussion and Analysis (Continued)

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

	Year Ended June 30			% Change 2014 to 2015
	2015	2014	2013 *	
<b>Results of Operations</b>				
Operating revenues	\$ 353.5	\$ 348.0	\$ 331.7	1.6
Operating expenses	309.0	310.9	295.7	(0.6)
Nonoperating expense - Net	<u>(31.9)</u>	<u>(38.4)</u>	<u>(17.3)</u>	16.9
<b>Changes in Net Position</b>	<u>\$ 12.6</u>	<u>\$ (1.3)</u>	<u>\$ 18.7</u>	(1,069.2)

\* Note: GASB 68 was implemented in FY15, but was not reflected retroactively in FY13 in the table above.

Operating revenues increased over last year's due to utility rate increases.

Nonoperating expenses decreased by \$6.6 million from fiscal year 2014. In 2014, a loss on disposal of assets associated with the reconstruction of our Haco customer service facility was recognized, which caused the decrease in expenses in 2015.

**Budget** - The BWL commissioners approved a \$288.4 million operating expense budget (excluding depreciation and impairment) for fiscal year 2015. Actual expenses (excluding depreciation) were \$269.8 million or 6.4 percent less than budget. The net capital improvement budget was \$65.4 million for fiscal year 2015 and actual net capital expenditures were approximately \$58.5 million.

**Financing Activities** - During fiscal year 2015, there were no significant financing activities.

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

## Statement of Net Position

	June 30	
	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 52,752,941	\$ 51,773,756
Cash and cash equivalents (Notes 4 and 11)	55,925,376	51,545,956
Investments (Notes 1 and 11)	91,585,641	91,030,822
Accounts receivable - Net (Note 1)	22,014,605	23,602,383
Estimated unbilled accounts receivable (Note 1)	18,280,777	17,157,806
Inventories (Note 1)	25,860,743	23,474,266
Other	3,344,122	3,617,737
Total current assets	269,764,205	262,202,726
<b>Other Assets</b>		
Recoverable energy asset (Note 6)	4,652,068	2,797,695
Recoverable revenue of Central Utilities Complex (Note 6)	(7,241,153)	(4,255,372)
Recoverable environmental remediation (Note 6)	18,616,005	23,626,611
Special deposit	11,380,000	14,225,000
Net pension asset (Note 8 and 16)	8,284,230	11,188,702
Other	8,123,949	4,220,485
Total other assets	43,815,099	51,803,121
<b>Noncurrent Restricted Assets (Investments)</b> (Notes 4 and 11)	24,263,950	46,828,045
<b>Utility Plant</b> (Note 1)		
Water	296,802,952	288,627,287
Electric	804,947,799	773,262,520
Steam	67,510,134	64,685,056
Chilled water	33,622,140	32,917,461
Common facilities	87,132,519	75,026,577
Central Utilities Complex	76,079,000	76,079,000
Total	1,366,094,544	1,310,597,901
Less accumulated depreciation	665,849,130	624,749,511
Net	700,245,414	685,848,390
Construction in progress (Note 3)	14,781,967	13,439,221
Total utility plant	715,027,381	699,287,611
Total assets	1,052,870,635	1,060,121,503
<b>Deferred Outflows of Resources -</b>		
Bond refunding loss being amortized	1,032,273	1,228,706



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

## Statement of Net Position (Continued)

	June 30	
	2015	2014
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 32,695,192	\$ 32,120,138
Current portion of long-term debt (Note 5)	13,299,345	17,824,253
Accrued payroll and related taxes	2,756,033	3,725,544
Customer deposits	2,678,145	2,674,858
Unearned revenue	1,127,500	-
Accrued compensated absences (Note 1)	4,092,441	3,916,658
Accrued interest	8,547,591	9,261,217
Total current liabilities	65,196,247	69,522,668
<b>Compensated Absences - Less current portion (Note 1)</b>	6,916,286	7,182,984
<b>Other Long-term Liabilities</b>		
Workers' compensation	2,200,000	2,000,000
Environmental remediation liability (Note 9)	10,172,203	10,356,249
Other	2,314,711	2,327,615
Total other long-term liabilities	14,686,914	14,683,864
<b>Long-term Debt - Less current portion (Note 5)</b>	347,044,294	361,310,213
Total liabilities	433,843,741	452,699,729
<b>Deferred Inflows of Resources</b>		
Regulated operations - Revenue intended to cover future costs (Note 6)	22,667,354	18,944,163
Net pension asset deferrals (Notes 8 and 16)	2,201,407	7,143,206
Total deferred inflows of resources	24,868,761	26,087,369
<b>Net Position</b>		
Net investment in capital assets	354,683,742	342,717,240
Restricted for debt service (Note 4)	77,016,891	76,037,706
Unrestricted	163,489,773	163,808,165
Total net position	<u>\$ 595,190,406</u>	<u>\$ 582,563,111</u>

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

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

	Year Ended June 30	
	2015	2014
<b>Operating Revenues (Note 1)</b>		
Water	\$ 37,910,106	\$ 37,246,939
Electric	295,047,904	289,154,465
Steam	14,959,212	16,324,128
Chilled water	5,568,287	5,397,411
Total operating revenues	353,485,509	348,122,943
<b>Operating Expenses</b>		
Production:		
Fuel, purchased power, and other operating expenses	163,336,653	165,199,058
Maintenance	24,415,690	17,045,140
Transmission and distribution:		
Operating expenses	7,006,002	11,829,786
Maintenance	13,864,024	11,262,716
Administrative and general	61,297,460	66,583,248
Depreciation and impairment (Note 1)	39,104,343	38,997,186
Total operating expenses	309,024,172	310,917,134
<b>Operating Income</b>	44,461,337	37,205,809
<b>Nonoperating Income (Expenses)</b>		
Investment income	1,351,006	1,866,462
Other income (expense)	1,534,922	(5,974,385)
System capacity fee	9,223,075	9,222,989
Bonded debt interest expense	(14,995,574)	(15,334,915)
Amortization - Central Utilities Complex	(8,057,715)	(7,642,715)
Return on equity (Note 7)	(20,840,065)	(20,608,093)
Other interest expense	(49,691)	(41,555)
Total nonoperating expenses - Net	(31,834,042)	(38,512,212)
<b>Net Income (Loss) (Changes in Net Position)</b>	12,627,295	(1,306,403)
<b>Net Position - Beginning of year - As restated (Note 16)</b>	582,563,111	583,869,514
<b>Net Position - End of year</b>	<b>\$ 595,190,406</b>	<b>\$ 582,563,111</b>

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

## Statement of Cash Flows

	Year Ended June 30	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
Cash from customers:		
Water	\$ 38,932,520	\$ 37,669,771
Electric	293,138,111	296,772,164
Steam	15,711,107	14,041,374
Chilled water	5,425,898	4,960,008
Total cash from customers	353,207,636	353,443,317
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(140,537,274)	(134,722,274)
Other suppliers	(69,814,422)	(85,526,501)
Total cash paid to suppliers	(210,351,696)	(220,248,775)
Cash paid to employees	(63,947,564)	(51,598,018)
Return on equity (Note 7)	(20,840,065)	(20,608,093)
Cash from customer deposits	3,287	301,524
Interest on customer deposits	(49,691)	(41,555)
Net cash provided by operating activities	58,021,907	61,248,400
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from new borrowings	-	208,084
Planned, bonded, and annual construction	(59,916,047)	(59,277,580)
Principal payments on debt	(18,594,394)	(18,031,042)
System capacity fees	9,223,075	9,222,989
Interest on debt	(15,709,200)	(15,380,966)
Net cash used in capital and related financing activities	(84,996,566)	(83,258,515)
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from the sale of emissions allowances	36	25,826
Proceeds from the Belle River Project and other	8,972,944	6,676,122
Net cash provided by noncapital financing activities	8,972,980	6,701,948
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale and maturity of investments	160,938,876	160,116,297
Interest received	2,003,345	3,696,174
Purchase of investments	(139,581,937)	(142,564,173)
Net cash provided by investing activities	23,360,284	21,248,298
<b>Net Increase in Cash and Cash Equivalents</b>	5,358,605	5,940,131
<b>Cash and Cash Equivalents - Beginning of year</b>	103,319,712	97,379,581
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 108,678,317</b>	<b>\$ 103,319,712</b>

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

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2015	2014
<b>Balance Sheet Classifications</b>		
Restricted cash and cash equivalents	\$ 52,752,941	\$ 51,773,756
Cash and cash equivalents	55,925,376	51,545,956
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 108,678,317</u></b>	<b><u>\$ 103,319,712</u></b>

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

	Year Ended June 30	
	2015	2014
Operating income	\$ 44,461,337	\$ 37,205,809
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(20,840,065)	(20,608,093)
Depreciation and impairment	39,104,343	38,997,186
Sewerage collection fees	1,088,442	977,373
Interest on customer deposits	(49,691)	(41,555)
Decrease (increase) in assets:		
Accounts receivable (Note 1)	1,611,029	(276,896)
Unbilled accounts receivable (Note 1)	(1,122,971)	(1,062,563)
Inventories	(2,386,479)	(728,273)
Customer deposits	3,287	301,524
Special deposit	2,845,000	-
Net pension asset	2,904,472	4,098,930
Other	(5,484,222)	5,511,475
Decrease in liabilities and deferred inflows of resources:		
Accounts payable and other accrued expenses	(218,674)	(2,771,029)
Net pension asset deferrals	(4,941,799)	-
Other	1,047,898	(355,488)
Total adjustments	13,560,570	24,042,591
Net cash provided by operating activities	<b><u>\$ 58,021,907</u></b>	<b><u>\$ 61,248,400</u></b>

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

## Pension Trust Funds - Statement of Net Position

	June 30	
	2015	2014
<b>Assets</b>		
Receivable - Investment interest receivable	\$ 305,573	\$ 331,781
Investments at fair value:		
Money market collective trust fund	8,564,513	8,904,375
U.S. government obligations	22,121,544	23,639,025
Corporate bonds and notes	32,582,122	32,558,775
Mutual funds	138,830,601	133,962,556
Stable value	31,844,948	33,607,203
Equities	163,468,806	165,310,705
Current liability	-	(13,000)
Self-directed brokerage account	1,376,730	1,147,041
Participant notes receivable	3,888,351	4,082,709
	<u>402,677,615</u>	<u>403,199,389</u>
Total investments		
<b>Net Position</b> - Held in trust for pension and other employee benefits	<u>\$ 402,983,188</u>	<u>\$ 403,531,170</u>

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

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

	Year Ended June 30	
	2015	2014
<b>Increases</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 886,489	\$ 53,252,318
Interest and dividend income	11,816,649	10,112,195
Net investment income	12,703,138	63,364,513
Employer contributions	15,219,154	19,539,305
Participant rollover contributions	1,345,481	2,395,693
Other	307,138	249,450
Total increases	29,574,911	79,423,734
<b>Decreases</b>		
Benefits paid to participants	28,168,455	26,398,589
Loan defaults	125,254	120,280
Participants' note and administrative fees	1,829,184	1,742,851
Total decreases	30,122,893	27,315,465
<b>Net (Decrease) Increase in Net Position Held in Trust</b>	(547,982)	52,108,269
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>		
Beginning of year	403,531,170	351,422,901
End of year	<u>\$ 402,983,188</u>	<u>\$ 403,531,170</u>

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

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## Notes to Financial Statements June 30, 2015 and 2014

### Note I - 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.

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

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## Notes to Financial Statements June 30, 2015 and 2014

### 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.



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

## Notes to Financial Statements June 30, 2015 and 2014

### Note I - 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:

	<u>Carrying Value</u>	
	<u>2015</u>	<u>2014</u>
Designated purpose:		
Coal inventory fluctuation	\$ 4,598,714	\$ 4,529,062
Litigation, environmental, and uninsured losses	18,589,552	18,306,887
Future water facilities	<u>3,745,990</u>	<u>3,688,651</u>
Subtotal	26,934,256	26,524,600
Special purpose - Future construction	<u>64,651,385</u>	<u>64,506,222</u>
Total	<u>\$ 91,585,641</u>	<u>\$ 91,030,822</u>

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Customer receivables	\$ 18,491,745	\$ 20,102,775
Sewerage collections	2,159,867	2,545,497
Combined sewer overflow - City of Lansing	(944,583)	(944,583)
Miscellaneous	4,307,576	3,898,694
Less allowance for doubtful accounts	<u>(2,000,000)</u>	<u>(2,000,000)</u>
Net	<u>\$ 22,014,605</u>	<u>\$ 23,602,383</u>

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

## Notes to Financial Statements June 30, 2015 and 2014

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

**Special Deposit** - The BWL contracted with Consumer's Energy to install a new gas pipeline in 2011 and funded construction of this pipeline and incurred \$15,900,000 at that time. The BWL will subsequently be reimbursed for all but \$1,675,000 of those costs provided minimum consumption requirements are met over the subsequent five-year period beginning in 2015. During the year ended June 30, 2015, the BWL received the first refund in the amount of \$2,845,000 after meeting minimum consumption requirements. The remaining \$11,380,000 has been recorded as a long-term other asset which is anticipated to be refunded over the next four 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:

	2015	2014
Coal	\$ 11,275,408	\$ 8,234,376
Gas	936,671	1,162,717
Materials and supplies	13,648,664	14,077,173
Total	<u>\$ 25,860,743</u>	<u>\$ 23,474,266</u>

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

Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with GASB 62 paragraphs 476-500. The resulting provisions for depreciation in 2015 and 2014, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

Classification of utility plant:	Life (Years)	Average Rate (Percent)	
		2015	2014
Water	4-100	1.8	1.9
Electric	4-50	3.4	3.5
Steam	5-50	3.5	3.3
Chilled water	5-50	3.4	3.5
Common facilities	4-50	4.1	5.7
Central Utilities Complex	15	6.7	6.7

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

## Notes to Financial Statements June 30, 2015 and 2014

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

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, 2015 and 2014:

Capital Asset Activity for Year Ended June 30, 2015					
	Capital Assets				Capital Assets
	FY Start	Transfers	Acquisition	Retirement	FY End
Water	\$ 288,627,287	\$ 25,014	\$ 9,096,693	\$ (946,042)	\$ 296,802,952
Electric	773,262,520	51,658	34,925,022	(3,291,401)	804,947,799
Steam	64,685,056	-	3,136,196	(311,118)	67,510,134
Chilled	32,917,461	-	704,679	-	33,622,140
Common	75,026,577	(76,672)	12,628,678	(446,064)	87,132,519
CUC	76,079,000	-	-	-	76,079,000
<b>Total</b>	<b>\$ 1,310,597,901</b>	<b>\$ -</b>	<b>\$ 60,491,268</b>	<b>\$ (4,994,625)</b>	<b>\$ 1,366,094,544</b>

Accumulated Depreciation for Year Ended June 30, 2015					
	Accum. Deprc. FY Start	Depreciation Transfer	Deprc. / Amort.	Depreciation Retirement	Accum. Deprc. FY End
			and Impairment for Year		
Water	\$ (84,984,612)	\$ (25,014)	\$ (5,147,689)	\$ 522,729	\$ (89,634,586)
Electric	(420,474,747)	3,099	(27,158,634)	2,254,187	(445,376,095)
Steam	(12,551,842)	-	(2,313,839)	88,162	(14,777,519)
Chilled	(7,887,640)	-	(1,140,043)	-	(9,027,683)
Common	(37,987,471)	21,915	(3,344,139)	211,580	(41,098,115)
CUC	(60,863,199)	-	(5,071,933)	-	(65,935,132)
<b>Total</b>	<b>\$ (624,749,511)</b>	<b>\$ -</b>	<b>\$ (44,176,277)</b>	<b>\$ 3,076,658</b>	<b>\$ (665,849,130)</b>

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

## Notes to Financial Statements June 30, 2015 and 2014

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

#### Capital Asset Activity for Year Ended June 30, 2014

	Capital Assets				Capital Assets
	FY Start	Transfers	Acquisition	Retirement	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
<b>Total</b>	<b>\$ 1,262,452,372</b>	<b>\$ -</b>	<b>\$ 65,405,161</b>	<b>\$ (17,259,632)</b>	<b>\$ 1,310,597,901</b>

#### Accumulated Depreciation for Year Ended June 30, 2014

	Accum. Deprc.	Depreciation	Deprc. / Amort.	Depreciation	Accum. Deprc.
	FY Start	Transfer	for Year	Retirement	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)
<b>Total</b>	<b>\$ (591,349,081)</b>	<b>\$ -</b>	<b>\$ (44,069,119)</b>	<b>\$ 10,668,689</b>	<b>\$ (624,749,511)</b>

**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 \$11,008,727 and \$11,099,642 as of June 30, 2015 and 2014, respectively.

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

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

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## Notes to Financial Statements June 30, 2015 and 2014

### 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, and deferred inflows of resources related to the net pension asset described in Note 8.

**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.

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

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## Notes to Financial Statements June 30, 2015 and 2014

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

**Unbilled Accounts Receivable and Revenue** - Unbilled accounts receivable at June 30, 2015 and 2014 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 \$7,956,814 and \$9,037,781 in 2015 and 2014, 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 \$36 and \$25,826 as of June 30, 2015 and 2014, respectively, from the sale of allowances and has recorded an intangible asset of \$0 as of June 30, 2015 and 2014 for purchased allowances related to future periods.

**Significant Customers** - The BWL has one customer which accounts for approximately 8 percent and 9 percent of the BWL's total revenue for the years ended June 30, 2015 and 2014, respectively.

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

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

### **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 \$75,074,000 and \$52,122,000 at June 30, 2015 and 2014, respectively, including commitments on existing construction contracts approximating \$9,173,000 and \$19,257,000 at June 30, 2015 and 2014, 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.

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 4 - Restricted Assets

Restricted assets are required under the 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, 2015	Carrying Value	
		2015	2014
Current:			
Operations and Maintenance Fund	\$ 33,195,350	\$ 88,301,618	\$ 80,126,021
Bond and Interest Redemption Fund	19,557,591	19,689,041	23,193,691
Total current	52,752,941	107,990,659	103,319,712
Noncurrent:			
2011A Construction Fund	-	-	22,564,095
Bond Reserve Fund	24,263,950	24,951,608	24,263,950
Total noncurrent	24,263,950	24,951,608	46,828,045
Total	<u>\$ 77,016,891</u>	<u>\$ 132,942,267</u>	<u>\$ 150,147,757</u>

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the year ended June 30, 2015.

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** - By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** - Restricted for payment of the current portion of bond principal and interest on the 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 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, 2015, the cost basis in the fund was \$25,302,514.



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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 5 - Long-term Debt

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

	2015	2014
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%	\$ 20,830,000	\$ 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%	16,355,000	16,960,000
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%	11,215,000	18,985,000
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%	39,985,000	39,990,000
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

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

## Notes to Financial Statements June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%	\$ 9,554,048	\$ 10,173,301
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
Granger III Corporation for ash hauling services due in monthly installments ranging from \$150,000 to \$250,000	1,650,712	4,650,712
City of Lansing agreement for the enhancement of the flood warning system, \$10,000 annually with final payment in 2016	<u>10,000</u>	<u>20,000</u>
Total	349,599,760	367,424,013
Less current portion	(13,299,345)	(17,824,253)
Plus current portion of premium on bonds	966,576	966,576
Plus unamortized premium	<u>9,777,303</u>	<u>10,743,877</u>
Total long-term portion	<u>\$ 347,044,294</u>	<u>\$ 361,310,213</u>

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be \$425,756,849 and \$423,049,941 at June 30, 2015 and 2014, respectively.

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

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

## Notes to Financial Statements June 30, 2015 and 2014

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	7,712,842	15,334,272	23,047,114
2021-2025	43,951,859	71,043,958	114,995,817
2026-2030	55,673,602	59,709,787	115,383,389
2031-2035	69,163,872	44,957,340	114,121,212
2036-2040	88,030,000	26,085,125	114,115,125
2041-2042	42,140,000	3,507,625	45,647,625
Total	<u>\$ 349,599,760</u>	<u>\$ 284,995,754</u>	<u>\$ 634,595,514</u>

The 2008A, 2011A, 2012A, and 2013A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2015, the balance of this reserve account was \$24,951,608 (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.

The 2013A Bond is payable in annual installments in the years 2015 to 2027, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds, or portions of the bonds in multiples of \$5,000 maturing in the years 2025 and thereafter shall be subject to redemption prior to maturity at the option of the BWL in any order of maturity as the BWL may determine and within any maturity by lot, on any date on after July 1, 2023 at the redemption price of par plus accrued interest to the date fixed for redemption.

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

### **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 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 were redeemed at maturity during the year ended June 30, 2015.

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

## Notes to Financial Statements June 30, 2015 and 2014

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

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

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

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 \$634,595,514. During the current year, net revenues of the BWL were \$66,776,903 compared to the annual debt requirements of \$29,150,574.

### 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 \$(7,241,153) and \$(4,255,372) at June 30, 2015 and 2014, 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, 2015 and 2014, \$20,848,000 in total costs has been recoverable as a regulatory asset.

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

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

As of June 30, 2015 and 2014, the amounts remaining to be recovered in rates were \$37,756 and \$1,470,035, 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, 2015 and 2014 was \$14,176,684 and \$17,793,606 respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009, regulatory accounting as per GASB 62 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2015 and 2014 for additional sites was \$4,401,565 and \$4,362,970, 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 \$4,652,068 and \$2,797,695 at June 30, 2015 and 2014, 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 \$6,953,049 and \$6,421,464 as of June 30, 2015 and 2014, respectively.

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

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## Notes to Financial Statements June 30, 2015 and 2014

### 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 \$2,202,716 and \$2,422,987 as of June 30, 2015 and 2014, 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 \$13,511,589 and \$10,099,712 as of June 30, 2015 and 2014. 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 \$9,834,276 and \$8,075,705 in 2015 and 2014, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$964,302 and \$924,809 in 2015 and 2014, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$1,087,668 and \$968,545 in 2015 and 2014, 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 \$20,840,065 in 2015 and \$20,608,093 in 2014 of operational cash flow in excess of debt service requirements.

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

## Notes to Financial Statements June 30, 2015 and 2014

### 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

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

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

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

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. No medical benefits were paid by the Defined Benefit Plan during the years ended June 30, 2015 and 2014.

**Employees Covered by Benefit Terms** - At February 28, 2015 and 2014 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

	2015	2014
Inactive plan members or beneficiaries currently receiving benefits	398	413
Inactive plan members entitled to but not yet receiving benefits	8	9
Active plan members	14	17
Total	<u>420</u>	<u>439</u>



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

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## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

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

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

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

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2014 and 2015. Plan documents do not require participant contributions.

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

**Investment Policy** - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the BWL's adopted asset allocation policy as of June 30, 2015 and 2014:

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

**Net Pension Asset** - The components of the net pension asset of the BWL at June 30, 2015 and 2014 were as follows (in thousands):

	2015	2014
Total pension liability	\$ 65,395	\$ 69,341
Plan fiduciary net position	73,679	80,530
BWL's net pension asset	\$ (8,284)	\$ (11,189)
Plan fiduciary net position, as a percentage of the total pension liability	112.67%	116.14%

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

The BWL has chosen to use June 30, 2014 as its measurement date for fiscal year 2014. The June 30, 2014 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2014. The June 30, 2014 total pension liability was determined by an actuarial valuation as of February 28, 2014, which used update procedures to roll forward the estimated liability to June 30, 2014.

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

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

Changes in Net Pension Asset	Increase (Decrease)		Net Pension Liability (Asset)
	Total Pension Liability	Plan Net Position	
Balance at June 30, 2013	\$ 67,280	\$ 75,424	\$ (8,144)
Changes for the year:			
Service cost	349	-	349
Interest	4,751	-	4,751
Differences between expected and actual experience	964	-	964
Changes in assumptions	4,538	-	4,538
Net investment income	-	14,243	(14,243)
Benefit payments, including refunds	(8,541)	(8,541)	-
Administrative expenses	-	(596)	596
Net changes	<u>2,061</u>	<u>5,106</u>	<u>(3,045)</u>
Balance at June 30, 2014	<u>\$ 69,341</u>	<u>\$ 80,530</u>	<u>\$ (11,189)</u>
Changes for the year:			
Service cost	274	-	274
Interest	4,919	-	4,919
Differences between expected and actual experience	(1,093)	-	(1,093)
Net investment income	-	1,771	(1,771)
Benefit payments, including refunds	(8,046)	(8,046)	-
Administrative expenses	-	(576)	576
Net changes	<u>(3,946)</u>	<u>(6,851)</u>	<u>2,905</u>
Balance at June 30, 2015	<u>\$ 65,395</u>	<u>\$ 73,679</u>	<u>\$ (8,284)</u>

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - For the year ended June 30, 2015, the BWL recognized a pension expense of (\$2,037,327). At June 30, 2015, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

For the year ended June 30, 2014, the BWL recognized pension expense of \$4,098,930. At June 30, 2014, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (7,143,206)

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

Years Ending June 30	
<u>                    </u>	
2016	\$ 996,802
2017	996,802
2018	996,802
2019	(788,999)

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

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## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

**Actuarial Assumptions** - The total pension liability in the June 30, 2015 and June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	6.44%-10.26%
Investment rate of return	7.50%

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

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 14 active participants in fiscal year 2015 and 17 active participants in fiscal year 2014, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

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

#### **Projected Cash Flows**

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

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

The long-term expected rate of return on Defined Benefit Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2015 and 2014 for each major asset class included in the Defined Benefit Plan's target asset allocation, as disclosed in the Defined Benefit Plan's financial statements, are summarized in the following table:

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

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

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

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

The following presents the net pension asset of the BWL at June 30, 2014, calculated using the discount rate of 7.5 percent, as well as what the BWL's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50 %)	Current Discount Rate (7.50 %)	1% Increase (8.50%)
Net pension asset of the BWL (in thousands)	\$ (5,315)	\$ (11,189)	\$ (16,603)

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

#### **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.

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

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## Notes to Financial Statements June 30, 2015 and 2014

### 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, 2015 and 2014, the BWL contributed \$5,548,360 and \$5,467,824, 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.



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

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## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

#### 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 725 participants eligible to receive benefits at June 30, 2015 and 698 participants eligible at June 30, 2014.

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, 2015 and 2014, the cost to BWL of maintaining the Retiree Benefit Plan was \$9,670,794 and \$9,266,529, of which respectively, was incurred as direct costs of benefits.

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

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

**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.

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

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## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

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

**Actuarial Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of 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.

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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 8 - Retirement Plans (Continued)

The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used range from 5.0 to 9.0 percent for the years ended June 30, 2015 and 2014.

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
6/30/2012	\$ 15,744	\$ 15,854	101%	\$ (150)
6/30/2013	13,994	14,045	100%	(201)
6/30/2014	9,202	9,268	101%	(267)
6/30/2015	5,765	9,671	168%	(4,173)

**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
2/28/2012	\$ 110,029	\$245,418	\$ 135,389	44.83%
2/28/2013	123,195	207,864	84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,565	200,196	42,631	78.71%

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

### **Note 8 - Retirement Plans (Continued)**

#### **Other Postretirement Benefits**

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

### **Note 9 - Commitments and Contingencies**

At June 30, 2015 and 2014, the BWL has two letters of credit in the amounts of \$1,000,000 and \$817,220 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

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 \$10,128,442 and \$10,312,492 for the years ended June 30, 2015 and 2014, 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 two years at an estimated remaining cost of \$11,367,000. There is no legal obligation to replace the pipes, therefore no liability has been recorded.

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

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

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

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2015 and 2014 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling \$11,841,667 through December 31, 2017. 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 \$9,639,000 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.

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

## Notes to Financial Statements June 30, 2015 and 2014

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

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

Year	Debt Service	Estimated Fixed Operating Costs	Total Required
2016	\$ 26,515,502	\$ 12,521,064	\$ 39,036,566
2017	23,720,173	13,603,908	37,324,081
2018	18,257,255	14,732,532	32,989,787
Total	<u>\$ 68,492,930</u>	<u>\$ 40,857,504</u>	<u>\$ 109,350,434</u>

In addition to the above required payments, the BWL must pay for fuel, other operating costs, and transmission costs related to any kilowatt hours (KWHs) purchased under these contracts.

The BWL recognized expenses for 2015 and 2014 of \$53,051,047 and \$52,549,164, 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.

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

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

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

The operating cash investment policy adopted by the BWL in accordance with Public Act 20, as amended, and the Lansing City Charter has authorized investment in bonds and securities of the United States government, certificates of deposit, time deposits, and bankers' acceptances of qualified financial institutions, commercial paper rated A1 by Standard & 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, 2015**

**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 \$1,666,654 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.

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

## Notes to Financial Statements June 30, 2015 and 2014

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

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

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$ 91,596,540	Counterparty

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

Investment	Fair Value	Less than 1 year	1-5 years	6-10 years
Pooled investment funds (if not 2a-7)	\$ 71,850,969	\$ 71,850,969	\$ -	\$ -
U.S. government or agency bond or note	\$ 91,435,063	29,617,760	\$ 61,817,303	\$ -

### Interest Rate Risk - Pension Trust Funds

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



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

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## Notes to Financial Statements June 30, 2015 and 2014

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

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

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 71,850,969	AAA	S&P

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

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

## Notes to Financial Statements June 30, 2015 and 2014

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

#### Credit Risk - Pension Trust Funds

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

**Foreign Currency Risk** - The BWL does not hold investments in foreign entities, currency, or debt.

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

## Notes to Financial Statements June 30, 2015 and 2014

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

#### 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 June 30, 2014, 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:

<u>Type of Investment</u>	<u>Cost Basis</u>	<u>How Held</u>
U.S. government or agency bond or notes	\$ 102,168,958	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:

	<u>Fair Value</u>	<u>Less than</u>		
		<u>1 Year</u>	<u>1-5 Years</u>	<u>6-10 years</u>
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	-	-

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

## Notes to Financial Statements June 30, 2015 and 2014

### 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	\$ 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	AI/PI	S&P
	4,994,396	AI+/PI	S&P
	2,996,083	AI/PI	S&P
	4,993,739	AI/PI	S&P
	1,313,050	AI/PI	S&P
	3,246,733	AI/PI	S&P
	4,098,924	AI+/PI	S&P
	2,997,393	AI+/PI	S&P
	2,996,798	AI/PI	S&P

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

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

## Notes to Financial Statements June 30, 2015 and 2014

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

#### Credit Risk - Pension Trust Funds

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 133,962,556	Not Rated	Not Rated
Government or agency bond	23,639,025	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	CC	S&P

**Foreign Currency Risk** - The BWL does not hold investments in foreign entities, currency, or debt.

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

### **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 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, 2015 and 2014. 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. The BWL has various levels of stop loss coverage that limits the BWL's exposure as it relates to self-insured claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

## Notes to Financial Statements June 30, 2015 and 2014

### 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		
	2015	2014	2013	2015	2014	2013
Unpaid claims -						
Beginning of year	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 1,637,276	\$ 1,590,814	\$ 1,606,994
Incurred claims, incurred but not reported	554,773	864,854	1,077,383	20,853,299	18,340,955	18,644,371
Claim payments	(354,773)	(864,854)	(1,077,383)	(21,302,403)	(18,294,493)	(18,660,551)
Unpaid claims - End of year	<u>\$ 2,200,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,188,172</u>	<u>\$ 1,637,276</u>	<u>\$ 1,590,814</u>

### 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 \$21.1 million, of which \$17.5 million has been recouped from our insurance carrier.

### Note 15 - Upcoming Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The BWL is currently evaluating the impact this standard will have on the financial statements when adopted during the BWL's 2016 fiscal year.

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

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## **Notes to Financial Statements June 30, 2015 and 2014**

### **Note 15 - Upcoming Pronouncements (Continued)**

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



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

## Notes to Financial Statements June 30, 2015 and 2014

### Note 16 - Change in Accounting

During the current year, the BWL adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the statements now include an asset for our overfunded defined benefit plan legacy costs. Some of the changes in this net pension asset will be recognized immediately as part of the pension expense measurement, and other changes will be deferred and recognized over future years. Refer to the Defined Benefit Plan section of Note 8 for further details.

As a result of implementing this statement, the following line items have been added to the statement of Net Position:

Item	As of June 30, 2015	As of June 30, 2014
Deferred inflows of resources - Net pension asset deferrals	\$ 2,201,407	\$ 7,143,206
Net Pension Asset	8,284,230	11,188,702

As this statement is applied retroactively, the financial statements for the year ended June 30, 2014 have been restated to apply the changes noted associated with the net pension asset.

The effect of this change is as follows:

<b>Net Position</b> - June 30, 2013, as originally reported	\$ 575,725,088
GASB 68 adjustment to record net pension asset as of June 30, 2013	<u>8,144,426</u>
<b>Net Position</b> - June 30, 2013, as restated	<u>\$ 583,869,514</u>
<b>Net Income</b> - June 30, 2014, as originally reported	\$ 2,792,527
GASB 68 adjustment to record net pension expense for the year ended June 30, 2014 (included in administrative and general expense)	<u>(4,098,930)</u>
<b>Net Loss</b> - June 30, 2014, as restated	<u>\$ (1,306,403)</u>

## **Required Supplemental Information**

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

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

	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*	2006*
<b>Total Pension Liability</b>										
Service cost	\$ 274	\$ 349	\$ 407	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	4,919	4,751	5,085	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(1,093)	964	(1,716)	-	-	-	-	-	-	-
Changes in assumptions **	-	4,538	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-	-
<b>Net Change in Total Pension Liability</b>	<b>(3,946)</b>	<b>2,061</b>	<b>(4,001)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Pension Liability - Beginning of year</b>	<b>69,341</b>	<b>67,280</b>	<b>71,281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Pension Liability - End of year</b>	<b>65,395</b>	<b>69,341</b>	<b>67,280</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	-	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	1,771	14,243	10,170	-	-	-	-	-	-	-
Administrative expenses	(576)	(596)	(536)	-	-	-	-	-	-	-
Benefit payments, including refunds	(8,046)	(8,541)	(7,777)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>(6,850)</b>	<b>5,106</b>	<b>1,857</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan Fiduciary Net Position - Beginning of year</b>	<b>80,529</b>	<b>75,424</b>	<b>73,567</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan Fiduciary Net Position - End of year</b>	<b>73,679</b>	<b>80,530</b>	<b>75,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>BWL Net Pension Asset - Ending</b>	<b>\$ (8,284)</b>	<b>\$ (11,189)</b>	<b>\$ (8,144)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan Fiduciary Net Position as a % of Total Pension Liability</b>	112.67%	116.14%	112.10%	- %	- %	- %	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	1,018	1,225	1,684	-	-	-	-	-	-	-
<b>BWL's Net Pension Asset as a % of Covered Employee Payroll</b>	(814%)	(913%)	(484%)	- %	- %	- %	- %	- %	- %	- %

\*GASB Statement No. 68 was implemented as of June 30, 2015. Information from 2006 - 2012 is not available and this schedule will be presented on a prospective basis.

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

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

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 2,109	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	86	2,109	-	-	-	-
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	1,018	1,225	1,684	2,101	2,398	2,660	3,089	3,162	3,391	3,942
<b>Contributions as a Percentage of Covered Employee Payroll</b>	- %	- %	- %	- %	3.59%	79.29%	- %	- %	- %	- %

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

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### **Required Supplemental Information Retiree Benefit Plan and Trust Schedule Years Ended June 30, 2015 and 2014**

The schedule of funding progress is as follows:

<u>Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>
2/28/2012	\$ 110,029	\$245,418	\$ 135,389	44.83%
2/28/2013	123,195	207,864	84,669	59.27%
2/28/2014	148,307	194,365	46,058	76.30%
2/28/2015	157,565	200,196	42,631	78.71%

## **Additional Information**

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

## Income Available for Revenue Bond Debt Retirement

	Year Ended June 30	
	2015	2014
<b>Income</b> - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 12,627,295	\$ (1,306,403)
<b>Adjustments to Income</b>		
Depreciation and impairment	39,104,343	38,997,186
Interest on long-term debt:		
Notes	49,691	41,555
Revenue bonds	14,995,574	15,334,915
Total additional income	54,149,608	54,373,656
<b>Income Available for Revenue Bonds and Interest Redemption</b>	<b>\$ 66,776,903</b>	<b>\$ 53,067,253</b>
<b>Debt Retirement Pertaining to Revenue Bonds</b>		
Principal	\$ 14,155,000	\$ 13,385,000
Interest	14,995,574	15,334,915
Total	<b>\$ 29,150,574</b>	<b>\$ 28,719,915</b>
<b>Percent Coverage of Revenue Bonds and Interest Requirements</b>	<b>229</b>	<b>185</b>

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

## Detail of Statement of Revenues and Expenses Years Ended June 30, 2015 and 2014

	Combined		Water	
	2015	2014	2015	2014
<b>Operating Revenues</b>				
Water	\$ 37,910,106	\$ 37,246,939	\$ 37,910,106	\$ 37,246,939
Electric:				
Retail	266,878,053	257,333,075	-	-
Sales for resale	28,169,851	31,821,390	-	-
Steam	14,959,212	16,324,128	-	-
Chilled water	5,568,287	5,397,411	-	-
<b>Total operating revenues</b>	<b>353,485,509</b>	<b>348,122,943</b>	<b>37,910,106</b>	<b>37,246,939</b>
<b>Operating Expenses</b>				
Production:				
Fuel, purchased power, and other operating expenses	163,336,653	165,199,058	8,104,909	8,957,388
Maintenance	24,415,690	17,045,140	3,134,979	2,981,167
Transmission and distribution:				
Operating expenses	7,006,002	11,829,786	1,419,800	1,478,877
Maintenance	13,864,024	11,262,716	3,582,512	3,554,104
Administrative and general	61,297,460	66,583,248	10,875,024	11,709,798
Depreciation and impairment	39,104,343	38,997,186	6,155,947	6,529,406
<b>Total operating expenses</b>	<b>309,024,172</b>	<b>310,917,134</b>	<b>33,273,171</b>	<b>35,210,740</b>
<b>Operating Income</b>	<b>44,461,337</b>	<b>37,205,809</b>	<b>4,636,935</b>	<b>2,036,199</b>
<b>Nonoperating Income (Expenses)</b>				
Investment income	1,351,006	1,866,462	219,281	279,183
Other income	1,534,922	(5,974,385)	921,168	(199,915)
System capacity fee	9,223,075	9,222,989	807,942	807,934
Bonded debt interest expense	(14,995,574)	(15,334,915)	(1,858,926)	(2,299,249)
Amortization - Central Utilities Complex	(8,057,715)	(7,642,715)	(705,856)	(669,502)
Payment in lieu of taxes	(20,840,065)	(20,608,093)	(2,248,922)	(2,230,811)
Other interest expense	(49,691)	(41,555)	(4,366)	(4,039)
<b>Total nonoperating expense</b>	<b>(31,834,042)</b>	<b>(38,512,212)</b>	<b>(2,869,679)</b>	<b>(4,316,399)</b>
<b>Net Income (Loss)</b>	<b>\$ 12,627,295</b>	<b>\$ (1,306,403)</b>	<b>\$ 1,767,256</b>	<b>\$ (2,280,200)</b>



**Detail of Statement of Revenues and Expenses (Continued)**  
**Years Ended June 30, 2015 and 2014**

Electric		Steam		Chilled Water	
2015	2014	2015	2014	2015	2014
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
266,878,053	257,333,075	-	-	-	-
28,169,851	31,821,390	-	-	-	-
-	-	14,959,212	16,324,128	-	-
-	-	-	-	5,568,287	5,397,411
295,047,904	289,154,465	14,959,212	16,324,128	5,568,287	5,397,411
147,658,997	145,645,050	6,103,489	9,019,050	1,469,258	1,577,570
20,499,896	13,322,981	544,181	548,042	236,634	192,950
5,235,380	10,057,156	350,822	293,753	-	-
9,979,670	7,262,321	301,536	421,252	306	25,039
49,245,600	53,414,153	984,240	1,190,697	192,596	268,600
29,178,160	28,887,165	2,451,617	2,200,476	1,318,619	1,380,139
261,797,703	258,588,826	10,735,885	13,673,270	3,217,413	3,444,298
33,250,201	30,565,639	4,223,327	2,650,858	2,350,874	1,953,113
1,023,221	1,386,482	58,070	123,840	50,434	76,957
586,071	(2,846,705)	(186,030)	(2,920,159)	213,713	(7,606)
7,712,335	7,712,263	702,798	702,792	-	-
(10,744,870)	(11,828,911)	(2,044,620)	(428,751)	(347,158)	(778,004)
(6,737,861)	(6,390,838)	(613,998)	(582,375)	-	-
(17,386,779)	(17,200,740)	(871,399)	(849,248)	(332,965)	(327,294)
(45,153)	(37,516)	(172)	-	-	-
(25,593,036)	(29,205,965)	(2,955,351)	(3,953,901)	(415,976)	(1,035,947)
<b>\$ 7,657,165</b>	<b>\$ 1,359,674</b>	<b>\$ 1,267,976</b>	<b>\$ (1,303,043)</b>	<b>\$ 1,934,898</b>	<b>\$ 917,166</b>

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

## Detail of Statement of Changes in Net Position

	Combined	Water	Electric	Steam	Chilled Water
<b>Net Position</b> - June 30, 2013, as originally reported	\$ 575,725,088	\$ 94,250,278	\$ 486,560,920	\$ (4,003,088)	\$ (1,083,022)
GASB 68 adjustment to record net pension asset as of June 30, 2013 (Note I6)	<u>8,144,426</u>	<u>1,677,752</u>	<u>5,991,040</u>	<u>452,830</u>	<u>22,804</u>
<b>Net Position</b> - June 30, 2013, as restated	583,869,514	95,928,030	492,551,960	(3,550,258)	(1,060,218)
Income (loss), as restated	<u>(1,306,403)</u>	<u>(2,280,200)</u>	<u>1,359,674</u>	<u>(1,303,043)</u>	<u>917,166</u>
<b>Net Position</b> - June 30, 2014, as restated	582,563,111	93,647,830	493,911,634	(4,853,301)	(143,052)
Income (loss)	<u>12,627,295</u>	<u>1,767,256</u>	<u>7,657,165</u>	<u>1,267,976</u>	<u>1,934,898</u>
<b>Net Position</b> - June 30, 2015	<u><b>\$ 595,190,406</b></u>	<u><b>\$ 95,415,086</b></u>	<u><b>\$ 501,568,799</b></u>	<u><b>\$ (3,585,325)</b></u>	<u><b>\$ 1,791,846</b></u>

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

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

	June 30, 2015			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
<b>Assets</b>				
Receivable - Investment interest receivable	\$ -	\$ 104,768	\$ 200,805	\$ 305,573
Investments at fair value:				
Money market collective trust fund	-	2,321,310	6,243,203	8,564,513
U.S. government obligations	-	6,659,203	15,462,341	22,121,544
Corporate bonds and notes	-	11,312,551	21,269,571	32,582,122
Mutual funds	136,010,607	925,065	1,894,929	138,830,601
Stable value	31,844,948	-	-	31,844,948
Equities	-	52,356,437	111,112,369	163,468,806
Current liability	-	-	-	-
Self-directed brokerage account	1,376,730	-	-	1,376,730
Participant notes receivable	3,888,351	-	-	3,888,351
Total investments	<u>173,120,636</u>	<u>73,574,566</u>	<u>155,982,413</u>	<u>402,677,615</u>
<b>Net Position - Held in trust for pension and other employee benefits</b>	<b><u>\$ 173,120,636</u></b>	<b><u>\$ 73,679,334</u></b>	<b><u>\$ 156,183,218</u></b>	<b><u>\$ 402,983,188</u></b>

	June 30, 2014			
	Defined	Defined Benefit	VEBA	Total
	Contribution Plan	Plan		
<b>Assets</b>				
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	<u>169,279,739</u>	<u>80,409,825</u>	<u>153,509,825</u>	<u>403,199,389</u>
<b>Net Position - Held in trust for pension and other employee benefits</b>	<b><u>\$ 169,279,739</u></b>	<b><u>\$ 80,529,981</u></b>	<b><u>\$ 153,721,450</u></b>	<b><u>\$ 403,531,170</u></b>

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

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

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
Investment income:				
Net appreciation in fair value of investments	\$ 21,201	\$ 215,209	\$ 650,079	\$ 886,489
Interest and dividend income	7,295,819	1,556,214	2,964,616	11,816,649
Net investment income	7,317,020	1,771,423	3,614,695	12,703,138
Employer contributions	5,548,360	-	9,670,794	15,219,154
Participant rollover contributions	1,345,481	-	-	1,345,481
Other	307,138	-	-	307,138
Total increases	14,517,999	1,771,423	13,285,489	29,574,911
<b>Decreases</b>				
Benefits paid to participants	10,451,713	8,045,948	9,670,794	28,168,455
Loan defaults	125,254	-	-	125,254
Participants' note and administrative fees	100,135	576,122	1,152,927	1,829,184
Total decreases	10,677,102	8,622,070	10,823,721	30,122,893
<b>Net Increase (Decrease) in Net Position Held in Trust</b>	3,840,897	(6,850,647)	2,461,768	(547,982)
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	169,279,739	80,529,981	153,721,450	403,531,170
End of year	<u>\$ 173,120,636</u>	<u>\$ 73,679,334</u>	<u>\$ 156,183,218</u>	<u>\$ 402,983,188</u>

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

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

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
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	<u>5,545,714</u>	<u>1,672,852</u>	<u>2,893,629</u>	<u>10,112,195</u>
Total 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	<u>270,989</u>	<u>-</u>	<u>-</u>	<u>270,989</u>
Total increases	30,246,262	14,243,164	34,934,308	79,423,734
<b>Decreases</b>				
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	<u>96,155</u>	<u>595,925</u>	<u>1,050,771</u>	<u>1,742,851</u>
Total decreases	<u>7,860,965</u>	<u>9,137,200</u>	<u>10,317,300</u>	<u>27,315,465</u>
<b>Net Increase in Net Position Held in Trust</b>	22,385,297	5,105,964	24,617,008	52,108,269
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	<u>146,894,442</u>	<u>75,424,017</u>	<u>129,104,442</u>	<u>351,422,901</u>
End of year	<u><b>\$ 169,279,739</b></u>	<u><b>\$ 80,529,981</b></u>	<u><b>\$ 153,721,450</b></u>	<u><b>\$ 403,531,170</b></u>