

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

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**Financial Report**

**with Required Supplemental Information**

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

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

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## INDEPENDENT AUDITORS' REPORT

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

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

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

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

***Opinion***

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

***Prior Period Financial Statements***

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

***Other Matter***

***Report on Required Supplementary Information***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
September 6, 2016

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

## Management's Discussion and Analysis

### Using this Annual Report

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

### Condensed Financial Information

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

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

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

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## Management's Discussion and Analysis (Continued)

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

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

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

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

### **Investment Objectives and Asset Allocation**

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

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

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

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

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

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## Management's Discussion and Analysis (Continued)

### Future Events

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

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

### Contacting the Plan's Management

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

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

### Statement of Plan Net Position

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



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

## Statement of Changes in Plan Net Position

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 1 - Summary of Significant Accounting Policies

#### **Reporting Entity**

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

#### **Accounting and Reporting Principles**

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

#### **Basis of Accounting**

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

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

#### **Report Presentation**

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

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

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Notes to Financial Statements  
As of and for the Years Ended June 30, 2016 and 2015

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

### Report Presentation (Continued)

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

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

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

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

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

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

## Note 2 - Plan Description

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

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 2 - Plan Description (Continued)

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

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 2 - Plan Description (Continued)

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

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

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

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 3 - Cash, Investments, and Fair Disclosure

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

#### Risks at June 30, 2016

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

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

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

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

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

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

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

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

#### Risks at June 30, 2015

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

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

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

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



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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

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

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

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

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 4 – Net Appreciation or Depreciation of Investments

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

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

### Note 5 - 401(h) Account

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 6 - Tax Status

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

### Note 7 - Plan Investments - Policy and Rate of Return

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

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	30.80%
Domestic equity	55.00%
International equity	14.20%

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 8 - Net Pension Asset of the BWL

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

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

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

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

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

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

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

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

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

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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

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

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

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 9 – Fair Value Measurements

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 9 – Fair Value Measurements (Continued)

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

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

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

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

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

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



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

## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 9 – Fair Value Measurements (Continued)

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

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

  

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 9 – Fair Value Measurements (Continued)

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

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

### Sensitivity to Changes in Significant Unobservable Inputs

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

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

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## Notes to Financial Statements As of and for the Years Ended June 30, 2016 and 2015

### Note 10 – Risks and Uncertainties

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

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

### Note 11 – Subsequent Events

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

## Required Supplemental Information

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

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

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

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

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

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

See Note to Required Supplemental Information.

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

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

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



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

## Schedule of Investment Returns Last Ten Fiscal Years

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

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