Board of Water and Light - City of Lansing, Michigan

Financial Report

with Additional Information

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

Contents

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

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

Prior Period Financial Statements

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

Other Matters

Required Supplementary Information

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

Additional Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 6, 2016

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

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric power and energy and provides electric service to over 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 65 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its participation in the MISO markets, membership in the Michigan Public Power Agency, which includes the BWL's partial ownership of Detroit Edison's Belle River Plant, and through its landfill gas renewable energy purchase agreement with Granger Electric of Lansing.

The BWL owns and operates water wells, a raw water transmission system, water conditioning facilities, and an extensive water distribution system serving potable water to over 56,000 residential, commercial, and industrial customers in the greater Lansing area.

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

Capital Expenditures

Capital expenditures are driven by the need to replace, expand, or maintain the generation, transmission, and distribution systems of the BWL to meet customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt service back into capital improvements for the water, electric, steam, and chilled water systems. Gross capital expenditures were $51.3 and $65.9 million in fiscal years 2016 and 2015, respectively.

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

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

Condensed Financial Information (dollars in millions)

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

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

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

Condensed Financial Information (dollars in millions) (Continued)

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

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

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

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

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

Statements of Net Position

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

Statements of Net Position (Continued)

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

See Notes to Financial Statements.

Statements of Revenues, Expenses, and Changes in Net Position

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

See Notes to Financial Statements.

Statements of Cash Flows

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

See Notes to Financial Statements.

Statements of Cash Flows (Continued)

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

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

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

Pension Trust Funds - Statements of Net Position

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

See Notes to Financial Statements.

Pension Trust Funds - Statements of Changes in Net Position

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

See Notes to Financial Statements.

Note 1 – Significant Accounting Policies

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

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

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

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

Fiduciary funds

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

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

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

Note 1 - Significant Accounting Policies (Continued)

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

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

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

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

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

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

Note 1 – Significant Accounting Policies (Continued)

Specific Balances and Transactions

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

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

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

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

Note 1 – Significant Accounting Policies (Continued)

Accounts Receivable – Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2016 and 2015 are as follows:

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

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

Note 1 – Significant Accounting Policies (Continued)

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

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

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

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

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

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

Note 1 – Significant Accounting Policies (Continued)

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

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

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

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

Note 1 – Significant Accounting Policies (Continued)

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** – Consists of net position with constraints placed on their use by revenue bond resolution.
- **Unrestricted** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

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

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

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

Note 1 – Significant Accounting Policies (Continued)

Unbilled Accounts Receivable and Revenue – Unbilled accounts receivable at June 30, 2016 and 2015 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to June 30 will be recognized in the current period.

Interutility Transactions – The water, electric, steam, and chilled water operations of the BWL bill each other for services provided and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated $8,496,848 and $7,956,814 in 2016 and 2015, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

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

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

Note 2 – Cash, Investments, and Fair Value Disclosure

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

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

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

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

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

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

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

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

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

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

At June 30, 2015, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

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

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

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

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

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

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

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

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

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

Investment		Fair Value	Rating	Rating Organization
Pooled investment funds	$	47,145,988	AAA	S&P
U.S. treasury bonds		38,056,849	AA+	S&P
U.S. agency bonds/notes		45,283,538	AA+	S&P
Commercial paper		7,447,318	A1/A1+	S&P
Supra national agency bonds		2,008,658	AAA	S&P
Mutual funds		124,840	AAAM	S&P

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

Investment		Fair Value	Rating	Rating Organization
Pooled investment funds	$	71,850,969	AAA	S&P
Mutual funds		150,565	AAAM	S&P
U.S government or agency bonds/notes		91,435,063	AA+	S&P

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

Fair Value

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

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

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

Enterprise funds

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

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

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

Fiduciary Fund Investments

Interest Rate Risk – Pension Trust Funds

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

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

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

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

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

Credit Risk – Pension Trust Funds

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

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

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

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

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

Fair Value – Pension Trust Funds

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

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 – Restricted Assets

Restricted assets are required under the 2008A, 2011A, 2012A, and 2013A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, commercial paper, and United States government securities, are segregated into the following funds:

	Required at June 30, 2016	Carrying Value 2016	Carrying Value 2015
Current:			
Operations and Maintenance Fund	$ 27,416,700	$ 80,922,920	$ 88,301,618
Bond and Interest Redemption Fund	19,169,626	19,301,123	19,689,041
Total current	46,586,326	100,224,043	107,990,659
Noncurrent:			
Bond Reserve Fund	24,263,950	25,319,385	24,951,608
Total noncurrent	24,263,950	25,319,385	24,951,608
Total	$ 70,850,276	$ 125,543,428	$ 132,942,267

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

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

Note 3 – Restricted Assets (Continued)

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

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

Note 4 – Utility Plant

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

Capital Asset Activity for Year Ended June 30, 2016

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

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2016

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

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

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

Note 4 – Utility Plant (Continued)

Capital Asset Activity for Year Ended June 30, 2015

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

Accumulated Depreciation for Year Ended June 30, 2015

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

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

Note 5 - Long-term Debt

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

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

Note 5 - Long-term Debt (Continued)

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

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

Note 5 - Long-term Debt (Continued)

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

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

The 2008A, 2011A, 2012A, and 2013A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2016, the balance of this reserve account was $25,319,385 (see Note 3). The 2009A bonds were a private placement issue and have no reserve requirement.

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

Note 5 - Long-term Debt (Continued)

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

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

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

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

The long-term debt activity for the year ended June 30, 2016 is as follows:

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

Note 5 - Long-term Debt (Continued)

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

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

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

Note 6 - Costs/Credits Recoverable in Future Years

Central Utilities Complex

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under the regulatory basis of accounting as per GASB 62. The BWL has recorded recoverable (revenue) amortization of $(5,071,934) and $(7,241,153) at June 30, 2016 and 2015, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC will be reimbursed through payments to be received from this customer through 2017. The recoverable (revenue) amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end.

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

Environmental Remediation

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

As of June 30, 2016 and 2015, the amounts remaining to be recovered in rates were $0 and $37,756, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

During the year ended June 30, 2006, the GASB 49 environmental remediation liability related to a second landfill was approved for regulated entity accounting under GASB 62. The balance of the regulatory asset at June 30, 2016 and 2015 was $7,076,982 and $14,176,684 respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. During the year ended June 30, 2009, regulatory accounting as per GASB 62 was authorized by the Board of Commissioners to collect rates for all environmental remediation sites. The balance as of June 30, 2016 and 2015 for additional sites was $4,406,587 and $4,401,565, respectively.

Recoverable Cost Adjustments

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

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

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

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

Chiller Plant

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

Wise Road

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

Note 7 – Transactions with the City of Lansing, Michigan

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

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

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

Note 8 – Retirement Plans

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

Note 8 – Retirement Plans (Continued)

Defined Benefit Plan

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

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

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

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

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

Note 8 - Retirement Plans (Continued)

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

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

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

Note 8 - Retirement Plans (Continued)

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

Projected Cash Flows

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

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

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

Note 8 – Retirement Plans (Continued)

Defined Contribution Plan

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

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

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

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees. No participant contributions are required.

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

<u>Retiree Benefit Plan and Trust</u>

The Retiree Benefit Plan and Trust (the "Plan") is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 715 participants eligible to receive benefits at June 30, 2016 and 725 participants eligible at June 30, 2015.

In October 1999, the BWL formed a Voluntary Employee Benefit Administration (VEBA) trust for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years. During the years ended June 30, 2016 and 2015, the cost to BWL of maintaining the Retiree Benefit Plan was $9,423,081 and $9,670,794, of which respectively, was incurred as direct costs of benefits.

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

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

Note 8 – Retirement Plans (Continued)

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

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

Contribution trend information is as follows (in thousands):

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

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

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

Note 8 – Retirement Plans (Continued)

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

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

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

Note 9 – Commitments and Contingencies (Continued)

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

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

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

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

Note 9 – Commitments and Contingencies (Continued)

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

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

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

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

Note 10 – Power Supply Purchase

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

Note 10 - Power Supply Purchase (Continued)

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

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

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

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

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

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

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

In accordance with Section 148(f)(2) of the IRC of 1986, as amended, the BWL is required on each anniversary date (July 1) of the Water Supply, Electric Utility, and Steam Utility System Revenue Bonds, Series 2008A, 2011A, 2012A, and 2013A to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

The estimated liability for excess earnings was $0 at June 30, 2016 and 2015. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

Note 12 – Risk Management and Insurance

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

Note 12 - Risk Management and Insurance (Continued)

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

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

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

Note 13 - Wise Road Reconstruction Project

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

Note 14 – Upcoming Pronouncements

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

Required Supplemental Information

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

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

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

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

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

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

The schedule of funding progress is as follows:

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

Additional Information

Income Available for Revenue Bond Debt Retirement

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

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

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

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

Detail of Statements of Changes in Net Position

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

Pension Trust Funds - Detail of Statements of Net Position

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

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

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

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

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

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