



Board of Water and Light – City of Lansing, Michigan

**Financial Report
with Additional Information
As of and for the Years Ended June 30, 2018
and 2017**

Board of Water and Light – City of Lansing, Michigan

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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

We have audited the accompanying financial statements of Lansing Board of Water and Light enterprise fund and its fiduciary funds, as of and for the years ended June 30, 2018 and 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lansing Board of Water and Light as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Lansing Board of Water and Light has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2016. Net position as of June 30, 2016 has been restated due to the implementation. Our opinions are not modified with respect to this matter.

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 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 audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information, listed in the table of contents as additional information, is 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 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 11, 2018

Lansing Board of Water and Light

Management's Discussion and Analysis

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light ("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, 2018 and 2017.

Overview of Business

The BWL owns and operates an electric system which generates, purchases, and distributes electric energy to over 97,000 retail customers in the greater Lansing area, and wholesale customers through participation in the Midcontinent Independent System Operator, Inc. (MISO), which is BWL's regional electric grid. The BWL generated 67 percent of its retail and wholesale sales from existing generation assets. Additional electric generation was supplied through BWL's membership in the Michigan Public Power Agency, which includes BWL's partial ownership of Detroit Edison's Belle River Plant, and through MISO. The BWL maintains a diversified renewable energy portfolio which includes wind, solar, landfill gas, and hydro-electric generation. The combination of renewable energy generation and energy efficiency programs support BWL's adopted plan to provide 30% clean energy in 2020 and 40% in 2030.

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 170 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 high 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. Gross capital expenditures were \$92.3 and \$51.9 million in fiscal years 2018 and 2017, respectively.

The BWL generally pays the cost of its capital improvements from internally generated funds however revenue bonds are issued from time to time to support large projects or special needs such as construction of generation facilities.

Please refer to Independent Auditors' report.

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

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 |
|--------------------------------------|---------------|---------------|----------|--------------|
| | 2018 | Restated 2017 | 2016 | 2017 to 2018 |
| Assets | | | | |
| Utility plant | \$ 719.3 | \$ 680.4 | \$ 690.7 | % 5.7 |
| Other assets | 296.8 | 332.8 | 342.1 | (10.8) |
| Total assets | 1,016.1 | 1,013.2 | 1,032.8 | 0.3 |
| Deferred Outflow of Resources | 7.4 | 6.6 | 3.8 | 12.1 |
| Liabilities | | | | |
| Long-term liabilities | 355.6 | 380.0 | 357.4 | (6.4) |
| Other liabilities | 61.3 | 56.6 | 57.1 | 8.3 |
| Total liabilities | 416.9 | 436.6 | 414.5 | (4.5) |
| Deferred Inflow of Resources | 36.2 | 26.9 | 26.0 | 34.6 |
| Net Position | | | | |
| Net investment in capital assets | 418.1 | 369.5 | 367.1 | 13.2 |
| Restricted for debt service | 42.8 | 38.7 | 38.3 | 10.6 |
| Unrestricted | 109.6 | 148.2 | 190.7 | (26.0) |
| Net position | \$ 570.5 | \$ 556.4 | \$ 596.1 | % 2.5 |

Capital expenditures in FY2018 exceeded depreciation, impairments and retirements thereby increasing utility plant by \$38.9 million. Fiscal year 2017 balances were restated due to the implementation of GASB No. 75. Fiscal year 2016 balances are shown as originally reported. The changes in the Deferred Outflow/Inflow of Resources is attributable to GASB No. 75 net OPEB liability. These deferrals reflect differences between projected and actual experience, changes in actuarial assumptions, and differences between projected and actual investment earnings on plan investments. They are amortized through expense as described in Note 8.

Please refer to Independent Auditors' report.

Lansing Board of Water and Light

Management's Discussion and Analysis (Continued)

Condensed Financial Information (dollars in millions) (Continued)

| | For the Year Ended June 30 | | | % Change | |
|--------------------------------|----------------------------|---------------|---------------|--------------|--------------|
| | 2018 | Restated 2017 | 2016 | 2017 to 2018 | |
| Result of Operations | | | | | |
| Operating Revenue | \$ 353.1 | \$ 371.4 | \$ 360.9 | % | (4.9) |
| Operating Expense | 325.5 | 342.4 | 327.1 | | (4.9) |
| Nonoperating expense - Net | -13.4 | -22.7 | -32.9 | | (41.0) |
| Changes in Net Position | \$ 14.1 | \$ 6.4 | \$ 0.9 | % | 120.3 |

Operating revenue decreased by \$18.3 million primarily due to a decrease in wholesale sales with the remaining attributed to a decrease in retail demand. Net Income increased by \$7.7 million because of reduced impairments and reduced operating expense. FY2018 Nonoperating expense includes more than \$13.3 million in bonded debt interest expense. In FY2017 and FY2016 impairments of the Eckert and Erickson Power Stations, and Customer Care Initiative drove Nonoperating expense to uncharacteristically high levels.

Budget – The BWL Commissioners approved a \$267.3 million operating expense budget (excluding depreciation) for fiscal year 2018. Actual expenses (excluding depreciation) were \$261.5 million. The capital improvement budget, net of customer contributions in aid of construction, was \$139.5 million for FY2018, and actual net capital expenditures were \$88.9 million. The difference between the capital budget and actual spend is due to a change in the project timeline for a new combined cycle natural gas power plant.

Financing Activities – In June of 2018, Revenue Bond Anticipation Notes Series 2018 were issued to fund project start-up costs for a new combined cycle natural gas power plant. The 2018 Note Series will provide funding for up to \$100 million in project costs for a period of up to 18 months. Prior to the end of the 18-month period, Revenue Bonds will be issued to extinguish the outstanding notes and provide additional project funding for the plant and other system improvements. The new 250 MW plant is currently budgeted at \$450 million and is scheduled to begin operation in FY 2021.

Please refer to Independent Auditors' report.

Board of Water and Light - City of Lansing, Michigan

Statements of Net Position

| | As of June 30 | |
|---|---------------|---------------|
| | 2018 | Restated 2017 |
| Assets | | |
| Current Assets | | |
| Restricted cash and investments (Notes 2 and 3) | \$ 50,550,600 | \$ 47,380,541 |
| Cash and investments (Notes 1 and 2) | 48,127,904 | 57,522,888 |
| Designated cash and investments (Notes 1 and 2) | 88,774,893 | 108,059,622 |
| Accounts receivable - Net (Note 1) | 24,560,286 | 24,571,987 |
| Estimated unbilled accounts receivable (Note 1) | 19,748,294 | 17,334,540 |
| Inventories (Note 1) | 23,921,728 | 25,421,903 |
| Other | 4,742,077 | 4,400,379 |
| Total current assets | 260,425,782 | 284,691,860 |
| Other Assets | | |
| Recoverable environmental remediation (Note 6) | 2,983,786 | 6,321,595 |
| Special deposit (Note 1) | 41,165 | 5,690,000 |
| Net pension asset (Note 8) | 6,616,482 | 9,029,155 |
| Other (Note 1) | 2,593,739 | 2,723,987 |
| Total other assets | 12,235,172 | 23,764,737 |
| Noncurrent Restricted Assets (Investments) (Notes 2 and 3) | 24,151,912 | 24,384,188 |
| Utility Plant (Notes 1 and 4) | | |
| Water | 316,440,019 | 309,243,104 |
| Electric | 730,148,451 | 687,921,365 |
| Steam | 78,115,677 | 71,614,976 |
| Chilled water | 34,078,066 | 34,023,916 |
| Common facilities | 92,072,756 | 92,329,375 |
| Total | 1,250,854,969 | 1,195,132,736 |
| Less accumulated depreciation | 570,038,862 | 534,316,387 |
| Net | 680,816,107 | 660,816,349 |
| Construction in progress (Note 10) | 38,518,401 | 19,591,830 |
| Total utility plant | 719,334,508 | 680,408,179 |
| Total assets | 1,016,147,374 | 1,013,248,964 |
| Deferred Outflows of Resources - | | |
| Bond refunding loss being amortized | 1,859,964 | 2,116,754 |
| Net pension deferred outflows (Note 8) | 1,932,329 | - |
| Net OPEB deferred outflows (Note 8) | 3,655,764 | 4,468,156 |
| Total deferred outflows of resources | 7,448,057 | 6,584,910 |

Board of Water and Light - City of Lansing, Michigan

Statements of Net Position (Continued)

| | As of June 30 | |
|---|-----------------------|-----------------------|
| | 2018 | Restated 2017 |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable | \$ 34,829,022 | \$ 29,923,625 |
| Current portion of long-term debt (Note 5) | 9,360,459 | 9,614,677 |
| Accrued payroll and related taxes | 2,311,346 | 2,182,199 |
| Customer deposits | 2,202,779 | 2,072,804 |
| Accrued compensated absences (Note 1) | 4,810,006 | 4,874,356 |
| Accrued interest | 89,998 | 227,323 |
| Accrued interest (payable from restricted assets) | <u>7,729,600</u> | <u>7,733,536</u> |
| Total current liabilities | 61,333,210 | 56,628,520 |
| Compensated Absences - Less current portion (Note 1) | 7,313,587 | 7,305,531 |
| Other Long-term Liabilities | | |
| Workers' compensation | 2,200,000 | 2,200,000 |
| Environmental remediation liability (Note 9) | 7,321,928 | 7,608,844 |
| Net OPEB liability (Note 8) | 19,447,441 | 31,989,335 |
| Other | <u>1,375,055</u> | <u>2,073,349</u> |
| Total other long-term liabilities | 30,344,424 | 43,871,528 |
| Long-term Debt - Less current portion (Note 5) | <u>317,880,899</u> | <u>328,752,913</u> |
| Total liabilities | 416,872,120 | 436,558,492 |
| Deferred Inflows of Resources | | |
| Revenue intended to cover future costs (Note 6) | 17,921,615 | 18,879,619 |
| Recoverable energy asset (Note 6) | 4,908,441 | 1,237,957 |
| Net pension deferred inflows (Note 8) | - | 31,205 |
| Net OPEB deferred inflows (Note 8) | <u>13,395,378</u> | <u>6,744,787</u> |
| Total deferred inflows of resources | 36,225,434 | 26,893,568 |
| Net Position | | |
| Net investment in capital assets | 418,105,026 | 369,476,728 |
| Restricted for debt service (Note 3) | 42,821,000 | 38,711,808 |
| Unrestricted | <u>109,571,851</u> | <u>148,193,278</u> |
| Total net position | <u>\$ 570,497,877</u> | <u>\$ 556,381,814</u> |

Board of Water and Light - City of Lansing, Michigan

Statements of Revenues, Expenses, and Changes in Net Position

| | For the Year Ended June 30 | |
|---|----------------------------|-----------------------|
| | 2018 | Restated 2017 |
| Operating Revenues (Note 1) | | |
| Water | \$ 41,524,143 | \$ 40,738,054 |
| Electric | 293,261,408 | 312,925,177 |
| Steam | 12,072,017 | 11,404,174 |
| Chilled water | 6,225,356 | 6,362,308 |
| Total operating revenues | 353,082,924 | 371,429,713 |
| Operating Expenses | | |
| Production: | | |
| Fuel, purchased power, and other operating expenses | 142,679,119 | 161,787,983 |
| Maintenance | 16,474,970 | 18,725,293 |
| Transmission and distribution: | | |
| Operating expenses | 7,929,917 | 10,139,726 |
| Maintenance | 19,983,487 | 15,839,208 |
| Administrative and general | 73,638,904 | 71,417,820 |
| Return on equity (Note 7) | 20,561,871 | 21,862,457 |
| Depreciation (Note 1) | 44,255,255 | 42,598,423 |
| Total operating expenses | 325,523,523 | 342,370,910 |
| Operating Income | 27,559,401 | 29,058,803 |
| Nonoperating Income (Expenses) | | |
| Investment income | 834,087 | 914,829 |
| Other (expense) income | (883,318) | 478,719 |
| Impairment on Power Stations (Note 4) | - | (9,337,129) |
| Bonded debt interest expense | (13,331,897) | (14,703,367) |
| Other interest expense | (62,210) | (51,446) |
| Total nonoperating expenses - Net | (13,443,338) | (22,698,394) |
| Net Income (Changes in Net Position) | 14,116,063 | 6,360,409 |
| Net Position - Beginning of year as restated | 556,381,814 | 550,021,405 |
| Net Position - End of year | \$ 570,497,877 | \$ 556,381,814 |

Board of Water and Light - City of Lansing, Michigan

Statements of Cash Flows

| | For the Year Ended June 30 | |
|---|----------------------------|-----------------------|
| | 2018 | 2017 |
| Cash Flows from Operating Activities | | |
| Cash received from customers | 358,158,868 | 377,684,831 |
| Cash paid to suppliers | (202,605,345) | (214,663,814) |
| Cash paid to employees | (58,221,626) | (61,976,765) |
| Return on equity (Note 7) | (20,561,871) | (21,862,457) |
| Cash from customer deposits | 129,975 | (231,622) |
| Interest on customer deposits | (62,210) | (51,446) |
| Net cash provided by operating activities | 76,837,791 | 78,898,727 |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from new borrowings | 50,001 | 2,201,662 |
| Planned, bonded, and annual construction | (77,627,731) | (50,209,767) |
| Principal payments on debt | (9,883,645) | (11,024,805) |
| Interest on debt | (15,952,433) | (16,846,591) |
| Net cash used in capital and related financing activities | (103,413,808) | (75,879,501) |
| Cash Flows from Investing Activities | | |
| Proceeds from the sale and maturity of investments | 76,471,402 | 62,633,076 |
| Interest received | 639,673 | 863,383 |
| Purchase of investments | (75,237,572) | (61,836,299) |
| Net cash provided by investing activities | 1,873,503 | 1,660,160 |
| Net Increase in Cash and Cash Equivalents | (24,702,514) | 4,679,386 |
| Cash and Cash Equivalents - Beginning of year | 104,903,429 | 100,224,043 |
| Cash and Cash Equivalents - End of year | \$ 80,200,915 | \$ 104,903,429 |

Board of Water and Light - City of Lansing, Michigan

Statements of Cash Flows (Continued)

| | For the Year Ended June 30 | |
|--|----------------------------|-----------------------|
| | 2018 | 2017 |
| Balance Sheet Classifications | | |
| Restricted cash and investments | \$ 50,550,600 | \$ 47,380,541 |
| Cash and investments | 48,127,904 | 57,522,888 |
| Designated cash and investments | 88,774,893 | 108,059,622 |
| Noncurrent restricted assets | 24,151,912 | 24,384,188 |
| Total cash and investments | \$ 211,605,309 | \$ 237,347,239 |
| Less noncash investments | (131,404,394) | (132,443,810) |
| Cash and Cash Equivalents - End of year | \$ 80,200,915 | \$ 104,903,429 |
| Reconciliation of Operating Income to Net Cash from Operating Activities | | |
| | For the Year Ended June 30 | |
| | 2018 | 2017 |
| Operating income | \$ 27,559,401 | \$ 29,058,803 |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Other nonoperating | (1,846,895) | 970,484 |
| Depreciation | 44,255,255 | 42,598,423 |
| Sewerage collection fees | 963,577 | 988,652 |
| Interest on customer deposits | (62,210) | (51,446) |
| Decrease (increase) in assets: | | |
| Accounts receivable (Note 1) | 11,701 | (1,403,328) |
| Unbilled accounts receivable (Note 1) | (2,413,754) | 2,191,935 |
| Inventories | 1,500,175 | (354,167) |
| Special deposit | 5,648,835 | 2,845,000 |
| Net pension asset | 2,412,673 | (4,765,165) |
| Other | 3,126,359 | 4,831,671 |
| (Decrease) increase in liabilities and deferred outflows/inflows of resources: | | |
| Accounts payable and other accrued expenses | 472,056 | 1,287,691 |
| Customer deposits | 129,975 | (231,622) |
| Net pension asset deferrals | (1,963,534) | 2,961,423 |
| Other postemployment benefits liability and deferrals | (5,078,911) | (2,031,269) |
| Other | 2,123,088 | 1,642 |
| Total adjustments | 49,278,390 | 49,839,924 |
| Net cash provided by operating activities | \$ 76,837,791 | \$ 78,898,727 |
| Noncash Capital and Financing Activities | | |
| Impairment on Power Station | \$ - | \$ 9,337,129 |
| Refunding bonds issued | - | 33,591,885 |

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statements of Net Position

| | As of June 30 | |
|--|-----------------------|-----------------------|
| | 2018 | 2017 |
| Assets | | |
| Receivable - investment interest receivable | \$ 553,132 | \$ 578,207 |
| Trade receivable - due from broker | 11,853 | 134,461 |
| Investments at fair value: | | |
| Cash and money market trust fund | 3,876,413 | 4,016,370 |
| U.S. government obligations | 34,494,449 | 38,104,494 |
| Fixed income securities | 47,121,007 | 45,862,887 |
| Mutual funds | 252,188,400 | 220,413,178 |
| Stable value | 35,135,911 | 35,270,975 |
| Partnership | - | 1,117,790 |
| Common stock | 62,052,966 | 74,379,228 |
| Self-directed brokerage account | 2,144,556 | 1,826,494 |
| Participant notes receivable | 3,649,872 | 3,899,938 |
| Total investments | <u>440,663,574</u> | <u>424,891,354</u> |
| Liabilities | | |
| Trade payable - due to broker | <u>154,385</u> | <u>105,260</u> |
| Net Position - Held in trust for pension and other employee benefits | <u>\$ 441,074,174</u> | <u>\$ 425,498,762</u> |

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Statements of Changes in Net Position

| | For the Year Ended June 30 | |
|---|----------------------------|-----------------------|
| | 2018 | 2017 |
| Increases | | |
| Investment income (loss): | | |
| Net appreciation (depreciation) in fair value of investments | \$ 17,115,698 | \$ 35,624,583 |
| Interest and dividend income | <u>14,665,987</u> | <u>10,178,156</u> |
| Net investment income (loss) | 31,781,685 | 45,802,739 |
| Employer contributions | 16,930,215 | 15,626,391 |
| Participant rollover contributions | 1,648,509 | 1,051,032 |
| Interest from participant notes receivable | <u>156,090</u> | <u>156,466</u> |
| Total increases | 50,516,499 | 62,636,628 |
| Decreases | | |
| Retiree benefits paid | 33,737,868 | 28,924,101 |
| Loan defaults | 209,514 | 72,325 |
| Participants' note and administrative fees | <u>993,705</u> | <u>1,114,932</u> |
| Total decreases | <u>34,941,087</u> | <u>30,111,358</u> |
| Change in Net Position Held in Trust | 15,575,412 | 32,525,270 |
| Net Position Held in Trust for Pension and Other Employee Benefits | | |
| Beginning of year | <u>425,498,762</u> | <u>392,973,492</u> |
| End of year | <u>\$ 441,074,174</u> | <u>\$ 425,498,762</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies

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

Reporting Entity – The BWL, a related organization of the City of Lansing, Michigan ("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:

Enterprise funds provide 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 Voluntary Employees' Beneficiaries Associates ("VEBA"), which accumulates resources for future retiree health care payments to retirees

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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 June 2015, the GASB issued statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This standard was implemented effective July 1, 2016 for the enterprise fund.

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

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, return on equity, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Specific Balances and Transactions

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

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 methods and inputs as discussed in Note 2. 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

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

| | Carrying Value | |
|---|----------------------|-----------------------|
| | 2018 | 2017 |
| Designated purpose: | | |
| Coal inventory fluctuation | \$ 4,667,114 | \$ 4,684,100 |
| Litigation, environmental, and uninsured losses | 18,867,177 | 18,936,117 |
| Future water facilities | <u>3,802,319</u> | <u>3,816,307</u> |
| Subtotal | 27,336,610 | 27,436,524 |
| Special purpose – Future construction | <u>61,438,283</u> | <u>80,623,098</u> |
| Total | <u>\$ 88,774,893</u> | <u>\$ 108,059,622</u> |

Accounts Receivable – Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2018 and 2017 are as follows:

| | 2018 | 2017 |
|--------------------------------------|----------------------|----------------------|
| Customer receivables | \$ 20,118,859 | \$ 18,680,026 |
| Sewerage collections | 2,367,863 | 2,282,599 |
| Miscellaneous | 3,573,564 | 5,109,362 |
| Less allowance for doubtful accounts | <u>(1,500,000)</u> | <u>(1,500,000)</u> |
| Net | <u>\$ 24,560,286</u> | <u>\$ 24,571,987</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

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 in costs. The BWL will subsequently be reimbursed for all but \$1,675,000 of those costs provided minimum consumption requirements are met over the initial 5 year period. The remaining deposit was returned to the BWL during fiscal year 2018. The long-term other asset for the Consumer’s Energy deposit recorded was \$0 and \$5,690,000 in 2018 and 2017, respectively. The BWL has \$41,165 of miscellaneous other deposits at year end.

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

| | <u>2018</u> | <u>2017</u> |
|------------------------|----------------------|----------------------|
| Coal | \$ 10,207,127 | \$ 10,692,936 |
| Gas | 478,312 | 631,759 |
| Materials and supplies | <u>13,236,289</u> | <u>14,097,208</u> |
| Total | <u>\$ 23,921,728</u> | <u>\$ 25,421,903</u> |

Utility Plant – The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred. 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 \$5,000 and an estimated life in excess of one year.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

Depreciation – Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives. The resulting provisions for depreciation in 2018 and 2017, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

| Classification of utility plant | Life (Years) | Average Rate (Percent) | |
|---------------------------------|-----------------|------------------------|------|
| | | 2018 | 2017 |
| Water | 4-100 | 2.1 | 1.8 |
| Electric | 4-50 | 4.3 | 4.0 |
| Steam | 5-50 | 3.2 | 3.4 |
| Chilled water | 5-50 | 3.5 | 3.5 |
| Common facilities | 4-50 | 5.2 | 4.6 |

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

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 \$12,123,593 and \$12,179,887 as of June 30, 2018 and 2017, respectively.

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position reports 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 three items that qualify for reporting in this category. The deferred outflows of resources relate to deferred losses on refunding, pension related deferrals under GASB 68, and OPEB related deferrals under GASB 75.

In addition to liabilities, the statement of net position reports' 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, pension related deferrals under GASB 68, and OPEB related deferrals under GASB 75.

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 enterprise fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the BWL's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

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 liability and the Plan’s fiduciary net position as of the measurement date. See Note 8 for additional information.

Other Assets – Other assets consists of 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.

Unbilled Accounts Receivable and Revenue – Unbilled accounts receivable at June 30, 2018 and 2017 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 July 1 will be recognized in the current period.

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the “Plan”), a trust fund of the BWL, and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 1 – Significant Accounting Policies (Continued)

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 \$8,448,086 and \$8,693,989 in 2018 and 2017, 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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.

Michigan Cooperative Liquid Assets Securities System (MI CLASS) reports the fair value of its underlying assets annually. Participants in the MI CLASS have the right to withdraw their funds in total on one day's notice. At June 30, 2018 and 2017, the fair value of the MI CLASS' assets were substantially equal to the utility's share. Michigan CLASS is rated AAAM by Standard and Poor's. The BWL also has cash and investments with Governments of Michigan Investing Cooperatively (GovMIC). The GovMIC cash and investments are recorded at amortized cost which approximates fair value.

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, 2018 and 2017, the BWL had \$19,701,949 and \$1,650,050, 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

At June 30, 2018, 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 | \$132,387,636 | Counterparty |

At June 30, 2017, 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 | \$ 134,304,527 | 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, 2018, the average maturities of investments are as follows:

| Investment | Fair Value | Less than 1 year | 1–5 years | 6–10 years |
|-----------------------------|-----------------------|---------------------|----------------------|---------------------|
| Pooled investment funds | \$ 20,793,790 | \$20,793,790 | \$ – | \$ – |
| U.S. treasury bonds | 88,550,287 | 26,479,857 | 62,070,430 | – |
| U.S. agency bonds/notes | 32,474,931 | 12,706,097 | 14,832,980 | 4,935,854 |
| Commercial paper | 4,177,853 | 4,177,853 | – | – |
| Supra national agency bonds | 7,184,565 | 380,005 | 6,804,560 | – |
| Mutual funds | 22,671,252 | 22,671,252 | – | – |
| Total | <u>\$ 175,852,678</u> | <u>\$87,208,854</u> | <u>\$ 83,707,970</u> | <u>\$ 4,935,854</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

At June 30, 2017, the average maturities of investments are as follows:

| Investment | Fair Value | Less than 1 year | 1–5 years | 6–10 years |
|-----------------------------|-----------------------|---------------------|-----------------------|---------------------|
| Pooled investment funds | \$ 41,448,433 | \$41,448,433 | \$ – | \$ – |
| U.S. treasury bonds | 91,325,108 | 16,239,430 | 75,085,678 | – |
| U.S. agency bonds/notes | 44,379,571 | 17,462,537 | 25,794,936 | 1,122,098 |
| Commercial paper | 17,854,457 | 17,854,457 | – | – |
| Supra national agency bonds | 1,974,548 | – | 1,974,548 | – |
| Mutual funds | 3,155,031 | 3,155,031 | – | – |
| Total | <u>\$ 200,137,148</u> | <u>\$96,159,888</u> | <u>\$ 102,855,162</u> | <u>\$ 1,122,098</u> |

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, 2018, the credit quality ratings of debt securities are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|-----------------------------|--------------|-----------|------------------------|
| Pooled investment funds | \$20,793,790 | AAA | S&P |
| U.S. treasury bonds | 88,550,287 | AA+ (Aaa) | S&P (Moody's) |
| U.S. agency bonds/notes | 32,474,931 | AA+ | S&P |
| Commercial paper | 4,177,853 | A1 | S&P |
| Supra national agency bonds | 7,184,565 | AAA | S&P |
| Mutual funds | 22,671,252 | AAAM | S&P |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

As of June 30, 2017, the credit quality ratings of debt securities 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 |

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. As of June 30, 2018 and 2017, the BWL's investment portfolio was concentrated as follows:

| Investment | 2018 | 2017 |
|-------------|------|------|
| Fannie Mae | 9% | 11% |
| Freddie Mac | 8% | 9% |
| GovMIC | 13% | 2% |

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

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

| Investment | June 30, 2018 | | | |
|---|---------------|-----------------------|-------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Treasury Bonds | \$ - | \$ 88,550,287 | \$ - | \$ 88,550,287 |
| Supra National Agency Bonds | - | 7,184,565 | - | 7,184,565 |
| Federal Agency Mortgage-Backed Security | - | 2,812,408 | - | 2,812,408 |
| Federal Agency Collateralized Mortgage Obligation | - | 4,058,966 | - | 4,058,966 |
| Federal Agency Bond/Note | - | 25,603,557 | - | 25,603,557 |
| Commercial Paper | - | 4,177,853 | - | 4,177,853 |
| Total investments at fair value level | <u>\$ -</u> | <u>\$ 132,387,636</u> | <u>\$ -</u> | <u>\$ 132,387,636</u> |

| Investment | June 30, 2017 | | | |
|---|---------------|-----------------------|-------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Treasury Bonds | \$ - | \$ 91,325,108 | \$ - | \$ 91,325,108 |
| Supra National Agency Bonds | - | 1,974,548 | - | 1,974,548 |
| Federal Agency Mortgage-Backed Security | - | 877,870 | - | 877,870 |
| Federal Agency Collateralized Mortgage Obligation | - | 1,589,459 | - | 1,589,459 |
| Federal Agency Bond/Note | - | 41,912,242 | - | 41,912,242 |
| Commercial Paper | - | 17,854,457 | - | 17,854,457 |
| Total investments at fair value level | <u>\$ -</u> | <u>\$ 155,533,684</u> | <u>\$ -</u> | <u>\$ 155,533,684</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

Fiduciary Fund Investments

Interest Rate Risk – Pension Trust Funds

At June 30, 2018, the average maturities of investments are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (in years)</u> |
|--------------------------------|-------------------|---|
| U.S. government or agency bond | \$ 34,494,449 | 13.65 |
| Fixed income securities | 47,121,007 | 13.19 |
| Mutual Fund – Bond Funds | 18,870,972 | 4.8 |
| Money market trust funds | 3,876,413 | Less than 1 year |

At June 30, 2017, the average maturities of investments are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (in years)</u> |
|--------------------------------|-------------------|---|
| U.S. government or agency bond | \$ 38,104,494 | 13.64 |
| Fixed income securities | 45,862,887 | 13.19 |
| Mutual Fund – Bond Funds | 19,198,075 | 5.5 |
| Money market trust funds | 4,016,366 | Less than 1 year |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

Credit Risk – Pension Trust Funds

As of June 30, 2018, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---|----------------|-----------|------------------------|
| Mutual funds | \$ 145,098,563 | Not rated | Not rated |
| U.S. government – implicitly guaranteed | 13,481,910 | AA+ | S&P |
| U.S. government – implicitly guaranteed | 416,305 | AA- | S&P |
| Stable value | 35,135,911 | AA | S&P |
| Fixed income securities | 4,234,231 | AAA | S&P |
| Fixed income securities | 18,869,605 | AA+ | S&P |
| Fixed income securities | 2,573,800 | AA | S&P |
| Fixed income securities | 576,738 | AA- | S&P |
| Fixed income securities | 1,070,268 | A+ | S&P |
| Fixed income securities | 4,502,135 | A | S&P |
| Fixed income securities | 3,680,285 | A- | S&P |
| Fixed income securities | 5,862,108 | BBB+ | S&P |
| Fixed income securities | 3,983,612 | BBB | S&P |
| Fixed income securities | 1,663,516 | BBB- | S&P |
| Fixed income securities | 8,030 | BB+ | S&P |
| Fixed income securities | 6,540 | B+ | S&P |
| Fixed income securities | 90,140 | B- | S&P |
| Money market trust funds | 3,876,410 | Not rated | Not rated |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

As of June 30, 2017, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Rating</u> | <u>Rating Organization</u> |
|---|-------------------|---------------|--------------------------------|
| Mutual funds | \$ 136,451,476 | Not rated | Not rated |
| U.S. government – implicitly guaranteed | 15,099,899 | AA+ | S&P |
| U.S. government – implicitly guaranteed | 412,491 | AA+ | S&P |
| Stable value | 35,270,975 | AA– | S&P |
| Fixed income securities | 2,907,825 | AAA | S&P |
| Fixed income securities | 16,843,409 | AA+ | S&P |
| Fixed income securities | 1,530,029 | AA | S&P |
| Fixed income securities | 1,609,659 | AA– | S&P |
| Fixed income securities | 971,866 | A+ | S&P |
| Fixed income securities | 5,118,520 | A | S&P |
| Fixed income securities | 3,700,024 | A– | S&P |
| Fixed income securities | 7,879,776 | BBB+ | S&P |
| Fixed income securities | 3,494,473 | BBB | S&P |
| Fixed income securities | 1,704,316 | BBB– | S&P |
| Fixed income securities | 8,170 | BB+ | S&P |
| Fixed income securities | 94,820 | CCC | S&P |
| Money market trust funds | 4,016,366 | Not rated | Not rated |

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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, 2018 and 2017:

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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, 2018 and 2017:

| Investment Type | June 30, 2018 | | | Total |
|---|-----------------------|-----------------------|---------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash and money market trust fund | \$ 3 | \$ 3,876,410 | \$ - | \$ 3,876,413 |
| U.S. government obligations | - | 34,494,449 | - | 34,494,449 |
| Fixed income securities | - | 47,121,007 | - | 47,121,007 |
| Mutual funds | 145,098,563 | 98,451,175 | - | 243,549,738 |
| Common stocks | 62,052,966 | - | - | 62,052,966 |
| Self-directed brokerage account | <u>2,144,556</u> | <u>-</u> | <u>-</u> | <u>2,144,556</u> |
| Total investments by fair value level | <u>\$ 209,296,088</u> | <u>\$ 183,943,041</u> | <u>\$ -</u> | <u>393,239,129</u> |
| Investments measured at the net asset value (NAV) | | | | |
| Stable value | | | | 35,135,911 |
| Guaranteed lifetime income | | | | <u>8,638,662</u> |
| Total investments measured at fair value | | | | <u>\$ 437,013,702</u> |
| | | | | |
| Investment Type | June 30, 2017 | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| Cash and money market trust fund | \$ 4 | \$ 4,016,366 | \$ - | \$ 4,016,370 |
| U.S. government obligations | - | 38,104,494 | - | 38,104,494 |
| Fixed income securities | - | 45,862,887 | - | 45,862,887 |
| Mutual funds | 136,451,476 | 75,470,692 | - | 211,922,168 |
| Partnership | - | - | 1,117,790 | 1,117,790 |
| Common stocks | 74,379,228 | - | - | 74,379,228 |
| Self-directed brokerage account | <u>1,826,494</u> | <u>-</u> | <u>-</u> | <u>1,826,494</u> |
| Total investments by fair value level | <u>\$ 212,657,202</u> | <u>\$ 163,454,439</u> | <u>\$ 1,117,790</u> | <u>377,229,431</u> |
| Investments measured at the net asset value (NAV) | | | | |
| Stable value | | | | 35,270,975 |
| Guaranteed lifetime income | | | | <u>8,491,010</u> |
| Total investments measured at fair value | | | | <u>\$ 420,991,416</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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

Investments Measured Using NAV per Share Practical Expedient: The stable value fund and guaranteed lifetime income fund use NAV per share as a practical expedient to measuring fair value. The stable value fund had a fair value of \$35,135,911 and \$35,270,975 as of June 30, 2018 and 2017, respectively and the guaranteed lifetime income fund had a fair value of \$8,638,662 and \$8,491,010, respectively. These funds have no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

Note 3 – Restricted Assets

Restricted assets are required under the 2008A, 2011A, 2012A, 2013A, and 2017A 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, 2018 | Carrying Value | |
|-----------------------------------|------------------------------|-----------------------|-----------------------|
| | | 2018 | 2017 |
| Current | | | |
| Operations and Maintenance Fund | \$ 34,236,000 | \$ 82,175,293 | \$ 88,852,839 |
| Bond and Interest Redemption Fund | <u>16,314,600</u> | <u>16,503,211</u> | <u>16,050,590</u> |
| Total current | <u>50,550,600</u> | <u>98,678,504</u> | <u>104,903,429</u> |
| Noncurrent | | | |
| Bond Reserve Fund | <u>24,044,200</u> | <u>24,151,912</u> | <u>24,384,188</u> |
| Total noncurrent | <u>24,044,200</u> | <u>24,151,912</u> | <u>24,384,188</u> |
| Total | <u>\$ 74,594,800</u> | <u>\$ 122,830,416</u> | <u>\$ 129,287,617</u> |

The carrying value in excess of the required value for the current portion is reported as cash and cash equivalents or investments for the years ended 2018 and 2017.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 3 – Restricted Assets (Continued)

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** – By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** – Restricted for payment of the current portion of bond principal and interest on the 2008A, 2009A, 2011A, 2012A, 2013A, and 2017A Revenue Bonds.
- **Bond Reserve Fund** – Shall include sufficient funds to cover the maximum annual principal and interest requirements of the 2008A, 2011A, 2012A, 2013A, and 2017A 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, 2018, the cost basis in the fund was \$24,475,928.

Note 4 – Utility Plant

The tables below reflect the capital asset activity of the utility plant categories for the years ended June 30, 2018 and 2017:

Capital Asset Activity for Year Ended June 30, 2018

| | <u>Capital Assets</u> <u>FY Start</u> | <u>Transfers</u> | <u>Acquisition</u> | <u>Retirement</u> | <u>Capital Assets</u> <u>FY End</u> |
|----------|--|------------------------|----------------------|------------------------|--|
| Water | \$ 309,243,104 | \$ 2,446,138 | \$ 5,369,363 | \$ (618,586) | \$ 316,440,019 |
| Electric | 687,921,365 | 7,822,325 | 39,936,364 | (5,531,603) | 730,148,451 |
| Steam | 71,614,976 | 917,849 | 6,343,874 | (761,022) | 78,115,677 |
| Chilled | 34,023,916 | - | 54,150 | - | 34,078,066 |
| Common | 92,329,375 | 869,060 | 4,103,668 | (5,229,347) | 92,072,756 |
| AUC | <u>19,591,830</u> | <u>(67,862,791)</u> | <u>86,789,362</u> | <u>-</u> | <u>38,518,401</u> |
| Total | <u>\$ 1,214,724,566</u> | <u>\$ (55,807,419)</u> | <u>\$142,596,781</u> | <u>\$ (12,140,558)</u> | <u>\$ 1,289,373,370</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 4 – Utility Plant (Continued)

Accumulated Depreciation for Year Ended June 30, 2018

| | <u>Accum. Depr.</u> <u>FY Start</u> | <u>Depreciation</u> <u>Transfer</u> | <u>Depr. / Amort.</u> <u>and Impairment</u> <u>for Year</u> | <u>Depreciation</u> <u>Retirement</u> | <u>Accum. Depr.</u> <u>FY End</u> |
|----------|--|--|---|--|--------------------------------------|
| Water | \$ (101,610,740) | \$ 60,509 | \$ (6,517,356) | \$ 402,202 | \$ (107,665,385) |
| Electric | (355,112,374) | 41,362 | (30,373,332) | 4,276,603 | (381,167,741) |
| Steam | (18,877,713) | - | (2,410,469) | 205,104 | (21,083,078) |
| Chilled | (11,409,281) | - | (1,179,524) | - | (12,588,805) |
| Common | <u>(47,306,279)</u> | <u>(101,871)</u> | <u>(4,757,200)</u> | <u>4,631,497</u> | <u>(47,533,853)</u> |
| Total | <u>\$ (534,316,387)</u> | <u>\$ -</u> | <u>\$ (45,237,881)</u> | <u>\$ 9,515,406</u> | <u>\$ (570,038,862)</u> |

Non-depreciable assets – Included in the table above are non-depreciable assets of \$1,210,196 for water, \$14,760,199 for electric, \$124,224 for steam, and \$412,339 for common facilities.

Erickson Power Station Impairment - In 2017, the BWL agreed to close the Erickson Power Station by 2025 as a result of a settlement with the Sierra Club in support of BWL's strategic plan. As a result, BWL recorded an impairment of \$9,337,129 in 2017 using the service units approach to measure the impairment.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 4 – Utility Plant (Continued)

Capital Asset Activity for Year Ended June 30, 2017

| | <u>Capital Assets</u> <u>FY Start</u> | <u>Transfers</u> | <u>Acquisition</u> | <u>Retirement</u> | <u>Capital Assets</u> <u>FY End</u> |
|--------------|--|-------------------------------|-----------------------------|--------------------------------|--|
| Water | \$ 302,165,777 | \$ (17,127) | \$ 7,454,989 | \$ (360,535) | \$ 309,243,104 |
| Electric | 774,429,214 | 2,307 | 29,073,790 | (115,583,946) | 687,921,365 |
| Steam | 68,557,331 | - | 3,569,514 | (511,869) | 71,614,976 |
| Chilled | 33,998,140 | - | 25,776 | - | 34,023,916 |
| Common | 88,752,432 | 14,820 | 5,328,467 | (1,766,344) | 92,329,375 |
| AUC | 15,583,201 | (45,452,536) | 49,461,165 | - | 19,591,830 |
| CUC | 76,079,000 | - | - | (76,079,000) | - |
| Total | <u>\$ 1,359,565,095</u> | <u>\$ (45,452,536)</u> | <u>\$ 94,913,701</u> | <u>\$ (194,301,694)</u> | <u>\$ 1,214,724,566</u> |

Accumulated Depreciation for Year Ended June 30, 2017

| | <u>Accum. Depr.</u> <u>FY Start</u> | <u>Depreciation</u> <u>Transfer</u> | <u>Depr. / Amort.</u> <u>and Impairment</u> <u>for Year</u> | <u>Depreciation</u> <u>Retirement</u> | <u>Accum. Depr.</u> <u>FY End</u> |
|--------------|--|--|---|--|--------------------------------------|
| Water | \$ (95,504,108) | \$ 12,935 | \$ (6,394,657) | \$ 275,090 | \$ (101,610,740) |
| Electric | (430,593,001) | 1,885 | (29,510,774) | 104,989,516 | (355,112,374) |
| Steam | (16,612,421) | - | (2,368,154) | 102,862 | (18,877,713) |
| Chilled | (10,231,244) | - | (1,178,037) | - | (11,409,281) |
| Common | (44,920,836) | (14,820) | (4,129,425) | 1,758,802 | (47,306,279) |
| CUC | (71,007,065) | - | (2,113,306) | 73,120,371 | - |
| Total | <u>\$ (668,868,675)</u> | <u>\$ -</u> | <u>\$ (45,694,353)</u> | <u>\$ 180,246,641</u> | <u>\$ (534,316,387)</u> |

Non-depreciable assets – Included in the table above are non-depreciable assets of \$1,203,638 for water, \$13,588,273 for electric, \$124,224 for steam, and \$412,339 for common facilities.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 5 – Long-term Debt

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

| | <u>2018</u> | <u>2017</u> |
|---|---------------|---------------|
| Water Supply, Steam, Chilled Water and Electric Utility System Revenue Refunding Bonds, Series 2017A, due in annual principal installments beginning July 1, 2019 and continuing through July 1, 2032, plus interest at a rate of 5.00%. Original amount of issue \$30,365,000. | \$ 30,365,000 | \$ 30,365,000 |
| Water Supply, Steam, Chilled Water, and Electric Utility System Revenue Refunding Bonds, Series 2013A, due in annual principal installments beginning July 1, 2014 through July 1, 2026, plus interest at rates ranging from 2.00% to 5.00%. Original amount of issue \$21,085,000. | 16,560,000 | 18,025,000 |
| 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. | 5,310,000 | 10,375,000 |
| 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. | 249,985,000 | 249,990,000 |
| Water Supply, Steam, Chilled Water, and Electric 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. | 1,745,000 | 3,420,000 |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 5 – Long-term Debt (Continued)

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at a rate of 2.50%. Original amount of issue \$13,225,385. | \$ 7,389,778 | \$ 8,932,605 |
| Lansing Economic Development Corp due in monthly installments of \$4,500 through 2022. | 18,000 | 22,500 |
| 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. | 3,410,245 | 3,536,560 |
| Bond anticipation note for a future issuance of revenue bonds pertaining to a natural gas combined cycle facility and other system improvements. | <u>50,001</u> | <u>-</u> |
| Total | 314,833,024 | 324,666,665 |
| Less current portion | (9,360,459) | (9,614,677) |
| Plus unamortized premium | <u>12,408,334</u> | <u>13,700,925</u> |
| Total long-term portion | <u>\$ 317,880,899</u> | <u>\$ 328,752,913</u> |

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

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 5 – Long-term Debt (Continued)

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-----------------------|-----------------------|-----------------------|
| 2019 | \$ 9,360,459 | \$ 15,598,174 | \$ 24,958,633 |
| 2020 | 7,658,795 | 15,183,315 | 22,842,110 |
| 2021 | 7,942,341 | 14,851,321 | 22,793,662 |
| 2022 | 8,247,081 | 14,495,683 | 22,742,764 |
| 2023 | 8,623,538 | 14,094,419 | 22,717,957 |
| 2024–2028 | 49,498,683 | 63,842,850 | 113,341,533 |
| 2029–2033 | 62,226,465 | 50,244,683 | 112,471,148 |
| 2034–2038 | 80,391,527 | 32,642,713 | 113,034,240 |
| 2039–2043 | 80,631,527 | 14,536,231 | 95,167,758 |
| 2044–2045 | <u>252,608</u> | <u>17,039</u> | <u>269,647</u> |
| Total | <u>\$ 314,833,024</u> | <u>\$ 235,506,428</u> | <u>\$ 550,339,452</u> |

The 2008A, 2011A, 2012A, 2013A, and 2017A 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, 2018, the balance of this reserve account was \$24,151,912 (see Note 3).

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

The 2017A Bonds are payable in annual installments in the years 2019 through 2027, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds, or portions of the bonds in multiples of \$5,000 maturing or subject to mandatory redemption in the years 2028 and thereafter, 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, 2027 at par plus accrued interest to the fixed date for redemption.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 5 – Long-term Debt (Continued)

The 2013A Bonds are payable in annual installments in the years 2014 to 2024, inclusive, and shall not be subject to optional redemption prior to maturity. The bonds maturing on or after July 1, 2024 shall be subject to redemption at the option of the BWL on or after July 1, 2023 as a whole or in part at any time and by lot within a maturity at par plus accrued interest to the redemption date.

The 2012A Bonds are 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 Bonds are 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 2008A Bonds maturing in the years 2012 to 2018, 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, 2018 is as follows:

| | <u>Revenue Bonds</u> | <u>Other Notes</u> | <u>Total</u> |
|---------------------|--------------------------|------------------------|-----------------------|
| Beginning balance | \$ 325,875,924 | \$ 12,491,666 | \$ 338,367,590 |
| Additions | - | 50,001 | 50,001 |
| Reductions | <u>(9,502,588)</u> | <u>(1,673,645)</u> | <u>(11,176,233)</u> |
| Ending balance | <u>\$ 316,373,336</u> | <u>\$ 10,868,022</u> | <u>\$ 327,241,358</u> |
| Due within one year | \$ 8,585,000 | \$ 775,459 | \$ 9,360,459 |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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 \$550,339,452. During the current year, net revenues of the BWL were \$71,765,425 compared to the annual debt requirements of \$24,044,200.

The long-term debt activity for the year ended June 30, 2017 is as follows:

| | Revenue Bonds | Other Notes | Total |
|---------------------|-----------------------|----------------------|-----------------------|
| Beginning balance | \$ 337,152,291 | \$ 12,595,471 | \$ 349,747,762 |
| Additions | 35,757,547 | 36,000 | 35,793,547 |
| Reductions | <u>(47,033,914)</u> | <u>(139,805)</u> | <u>(47,173,719)</u> |
| Ending balance | <u>\$ 325,875,924</u> | <u>\$ 12,491,666</u> | <u>\$ 338,367,590</u> |
| Due within one year | \$ 8,210,000 | \$ 1,404,677 | \$ 9,614,677 |

Advance Refunding

On February 15, 2017, Series 2017A Revenue Refunding Bonds in the amount of \$30,365,000 were issued with an average yield rate of 2.58% to advance refund \$34,680,000 of the outstanding Series 2008A Revenue Bonds with an average yield rate of 4.77%. The net proceeds, along with approximately \$1.3 million of restricted funds on hand, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the advance refunding was \$51,558,250 from 2017 through 2032. The cash flow requirements on the new bonds are \$44,947,061 from 2017 through 2032. The advance refunding resulted in an economic gain of \$4,020,830. The bonds are callable on July 1, 2018. At June 30, 2018, \$34,680,000 of the bonds outstanding are considered defeased.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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 \$0 and \$0 at June 30, 2018 and 2017, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC was reimbursed through payments received from this customer through 2017. The recoverable (revenue) amortization balance represented the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end. The CUC was sold to the customer in fiscal 2017 under the terms of the agreement.

Environmental Remediation

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, 2018 and 2017 was \$620,768 and \$1,858,705, 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, 2018 and 2017 for additional sites was \$2,363,018 and \$4,462,890, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

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 power supply cost recovery (PSCR) adjustment, power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electric, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in recoverable assets of \$(4,908,441) and \$(1,237,957) at June 30, 2018 and 2017, respectively. This amount represents costs to be billed (credited) to customers in future years because actual costs of providing utilities were higher (lower) than the costs incorporated into the BWL's rates.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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 \$5,652,720 and \$5,407,828 as of June 30, 2018 and 2017, 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. The remaining recoverable inflow of resources of \$1,541,901 and \$1,762,172 as of June 30, 2018 and 2017, 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, 2018 and 2017 was \$10,726,994 and \$11,709,619, respectively.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 7 – Transactions with the City of Lansing, Michigan

Operations – The BWL recognized revenue of \$8,492,561 and \$8,154,863 in 2018 and 2017, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$839,024 and \$913,190 in 2018 and 2017, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$963,577 and \$988,652 in 2018 and 2017, respectively, included in other income.

Return on Equity – Effective July 1, 1992, the BWL entered into an agreement with the City to provide 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. The return on equity represents compensation to the City for a permanent easement granted to the BWL. 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 in semi-annual installments. Under terms of this agreement, the BWL paid to the City \$20,561,871 in 2018 and \$21,862,457 in 2017 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 ("Defined Benefit Plan"), and the BWL has a tax-qualified, single-employer, noncontributory, defined contribution public employee retirement pension plan ("Defined Contribution Plan"). The BWL also has a tax-qualified, single-employer, defined benefit plan to administer and fund retiree healthcare benefits ("Retiree Benefit Plan and Trust").

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

Defined Benefit Plan

Plan Description – The BWL administers the Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees’ Pensions (“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 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.

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, 2018 and 2017.

Employees Covered by Benefit Terms – At February 28, 2018 and 2017 (the most recent actuarial valuation for funding purposes), Defined Benefit Plan membership consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|
| Inactive plan members or beneficiaries currently receiving benefits | 352 | 368 |
| Inactive plan members entitled to but not yet receiving benefits | 4 | 6 |
| Active plan members | <u>8</u> | <u>8</u> |
| Total | <u>364</u> | <u>382</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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 retains an independent actuary to determine the annual contribution. The actuarially determined contribution 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, 2017 and 2018. Plan documents do not require participant contributions.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

Net Pension Asset – The components of the net pension asset of the BWL at June 30, 2018 and June 30, 2017 were as follows (in thousands):

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Total pension liability | \$ 55,751 | \$ 56,895 |
| Plan fiduciary net pension | <u>62,367</u> | <u>65,924</u> |
| Plan's net pension asset | <u>\$ (6,616)</u> | <u>\$ (9,029)</u> |
| Plan fiduciary net position, as a percentage of the total pension liability | 111.87% | 115.87% |

The BWL has chosen to use June 30, 2018 as its measurement date for fiscal year 2018. The June 30, 2018 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2018. The June 30, 2018 total pension liability was determined by an actuarial valuation as of February 28, 2018, which used update procedures to roll forward the estimated liability to June 30, 2018.

The BWL has chosen to use June 30, 2017 as its measurement date for fiscal year 2017. The June 30, 2017 reported net pension asset was determined using a measure of the total pension liability and the pension net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation as of February 28, 2017, which used update procedures to roll forward the estimated liability to June 30, 2017.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

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

| | (in thousands) | | |
|---|----------------------------|----------------------|----------------------|
| | Total Pension Liability | Plan Net Position | Net Pension Asset |
| Balance at June 30, 2016 | \$ 61,178 | \$ 65,442 | \$ (4,264) |
| Changes for the year: | | | |
| Service cost | 112 | - | 112 |
| Interest | 4,317 | - | 4,317 |
| Differences between expected and actual experience | - | - | - |
| Changes in assumptions | (383) | - | (383) |
| Net investment income | (857) | - | (857) |
| Benefit payments, including refunds | - | 8,271 | (8,271) |
| Administrative expenses | (7,472) | (7,472) | - |
| Miscellaneous other charges | - | (317) | 317 |
| Net changes | (4,283) | 482 | (4,765) |
| Balances at June 30, 2017 | <u>\$ 56,895</u> | <u>\$ 65,924</u> | <u>\$ (9,029)</u> |
| Changes for the year: | | | |
| Service cost | \$ 50 | \$ - | \$ 50 |
| Interest | 4,031 | - | 4,031 |
| Differences between expected and actual experience | - | - | - |
| Changes in assumptions | (230) | - | (230) |
| Net investment income | 1,419 | - | 1,419 |
| Benefit payments, including refunds | - | 3,112 | (3,112) |
| Administrative expenses | (6,414) | (6,414) | - |
| Miscellaneous other charges | - | (255) | 255 |
| Net changes | (1,144) | (3,557) | 2,413 |
| Balance at June 30, 2018 | <u>\$ 55,751</u> | <u>\$ 62,367</u> | <u>\$ (6,616)</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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, 2018, the BWL recognized pension expense of \$811,903. At June 30, 2018, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ 1,932,329 | \$ – |

For the year ended June 30, 2017, the BWL recognized pension expense of \$(1,934,026). At June 30, 2017, the BWL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ – | \$ 31,205 |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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 | | |
|-------------------------|----|------------------|
| 2019 | \$ | 1,408,903 |
| 2020 | | 619,901 |
| 2021 | | (413,803) |
| 2022 | | 317,328 |
| Total | \$ | <u>1,932,329</u> |

Actuarial Assumptions – The total pension liability in the June 30, 2018 and June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | <u>2018</u> | <u>2017</u> |
|---------------------------|-------------|-------------|
| Inflation | 3.00% | 3.00% |
| Salary increases | 3.50% | 3.50% |
| Investment rate of return | 7.00% | 7.50% |

Mortality rates were based on the Healthy and Disabled, RP-2014 Mortality Table with MP-2017 Improvement Scale.

The most recent experience review was completed in 2014. Since the Defined Benefit Plan covered 8 active participants in fiscal year 2018 and 8 active participants in fiscal year 2017, assumptions like termination, retirement, and disability have an immaterial impact on the results and have not been changed.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7 percent and 7.5 percent in 2018 and 2017, respectively. 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, 2018 and 2017 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:

| <u>Asset Class</u> | <u>2018 Long-term Expected Real Rate of Return</u> | <u>2017 Long-term Expected Real Rate of Return</u> |
|----------------------|--|--|
| Fixed income | 2.74% | 2.54% |
| Domestic equity | 8.16% | 7.94% |
| International equity | 8.73% | 8.66% |
| Real estate | 5.91% | 5.88% |
| Multi-sector | 3.60% | - |
| Absolute return | 3.82% | - |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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, 2018, calculated using the discount rate of 7.0 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 (6.0 percent) or 1 percentage-point higher (8.0 percent) than the current rate:

| | 1% Decrease <u>(6.00%)</u> | Current Discount Rate <u>(7.00%)</u> | 1% Increase <u>(8.00%)</u> |
|---|-------------------------------|--|-------------------------------|
| Net pension liability (asset) of the BWL | \$ (1,539,264) | \$ (6,616,482) | \$ (9,466,780) |

The following presents the net pension asset of the BWL at June 30, 2017, 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 <u>(6.50%)</u> | Current Discount Rate <u>(7.50%)</u> | 1% Increase <u>(8.50%)</u> |
|---|-------------------------------|--|-------------------------------|
| Net pension liability (asset) of the BWL | \$ (4,900,393) | \$ (9,029,155) | \$ (12,878,570) |

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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

Defined Contribution Plan

The Lansing Board of Water and Light Employees' Defined Contribution Pension Plan and Trust ("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 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 9.5 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, 2018 and 2017, the BWL contributed \$6,534,888 and \$6,052,720, 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*.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

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

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

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

Retiree Benefit Plan and Trust (OPEB)

Plan Description – The Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light (“Retiree Benefit Plan and Trust”) 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 728 participants eligible to receive benefits at June 30, 2018 and 658 participants eligible at June 30, 2017.

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, 2018 and 2017, the cost to BWL of maintaining the Retiree Benefit Plan was \$10,395,327 and \$9,573,671, of which respectively, was incurred as direct costs of benefits.

The Retiree Benefit Plan and Trust 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

Benefits Provided – The Plan provides medical, dental, and life insurance benefits in accordance with Section 5–203 of the City Charter. Benefits are provided through third-party insurers, and the full cost of the benefits is covered by the plan.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

| | |
|--|--------------|
| Active plan members (not eligible to receive benefits) | 703 |
| Disabled participants | 77 |
| Retired participants | 506 |
| Surviving spouses | <u>145</u> |
| Total | <u>1,431</u> |

At June 30, 2017, the following employees were covered by the benefit terms:

| | |
|--|--------------|
| Active plan members (not eligible to receive benefits) | 713 |
| Disabled participants | 76 |
| Retired participants | 453 |
| Surviving spouses | <u>129</u> |
| Total | <u>1,371</u> |

Contributions – Section 5–203 of the City Charter grants the authority to establish and amend the contribution requirement to the BWL. The BWL establishes its minimum contribution based on an actuarially determined rate. For the years ended June 30, 2018 and 2017, the actual contribution rates of the BWL were 18.7 percent and 17.6 percent of covered-employee payroll, respectively.

Net OPEB Liability – The BWL has chosen to use June 30, 2018 as its measurement date for fiscal year 2018. The June 30, 2018 reported net pension liability was determined using a measure of the total OPEB liability and the OPEB net position as of June 30, 2018. The June 30, 2018 total OPEB liability was determined by an actuarial valuation as of February 28, 2018, which used update procedures to roll forward the estimated liability to June 30, 2018.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

The BWL has chosen to use June 30, 2017 as its measurement date for fiscal year 2017. The June 30, 2017 reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of June 30, 2017. The June 30, 2017 total OPEB liability was determined by an actuarial valuation as of February 28, 2018.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 and June 30, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurements, unless otherwise specified:

| Inflation | 3.0 percent | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------|---|---------------|---------------------|---------------|---------------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|
| Payroll Growth | 9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit/productivity increases. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment rate of return | 7.5 percent, net of OPEB plan investment expense, including inflation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Healthcare cost trend rates | <table><thead><tr><th><u>FYE</u></th><th><u>Medical / RX</u></th><th><u>Part B</u></th><th><u>Dental</u></th></tr></thead><tbody><tr><td>2019</td><td>9.00%</td><td>3.00%</td><td>5.00%</td></tr><tr><td>2020</td><td>8.50%</td><td>3.25%</td><td>4.75%</td></tr><tr><td>2021</td><td>8.00%</td><td>3.50%</td><td>4.50%</td></tr><tr><td>2022</td><td>7.50%</td><td>3.75%</td><td>4.25%</td></tr><tr><td>2023</td><td>7.00%</td><td>4.00%</td><td>4.00%</td></tr><tr><td>2024</td><td>6.50%</td><td>4.25%</td><td>4.00%</td></tr><tr><td>2025</td><td>6.00%</td><td>4.50%</td><td>4.00%</td></tr><tr><td>2026</td><td>5.50%</td><td>4.75%</td><td>4.00%</td></tr><tr><td>2027</td><td>5.00%</td><td>5.00%</td><td>4.00%</td></tr></tbody></table> | <u>FYE</u> | <u>Medical / RX</u> | <u>Part B</u> | <u>Dental</u> | 2019 | 9.00% | 3.00% | 5.00% | 2020 | 8.50% | 3.25% | 4.75% | 2021 | 8.00% | 3.50% | 4.50% | 2022 | 7.50% | 3.75% | 4.25% | 2023 | 7.00% | 4.00% | 4.00% | 2024 | 6.50% | 4.25% | 4.00% | 2025 | 6.00% | 4.50% | 4.00% | 2026 | 5.50% | 4.75% | 4.00% | 2027 | 5.00% | 5.00% | 4.00% |
| <u>FYE</u> | <u>Medical / RX</u> | <u>Part B</u> | <u>Dental</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019 | 9.00% | 3.00% | 5.00% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 | 8.50% | 3.25% | 4.75% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2021 | 8.00% | 3.50% | 4.50% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2022 | 7.50% | 3.75% | 4.25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2023 | 7.00% | 4.00% | 4.00% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2024 | 6.50% | 4.25% | 4.00% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2025 | 6.00% | 4.50% | 4.00% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2026 | 5.50% | 4.75% | 4.00% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2027 | 5.00% | 5.00% | 4.00% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Mortality rates were based on the RPH-2016 Total Dataset Mortality Table fully generational using Scale MP-2016 (RPH-2016 table is created based on RPH-2014 Total Dataset Mortality Table with 8 years of MP-2014 mortality improvement backed out, adjusted to 2010 using MP-2017 projection scale).

Best actuarial practices call for a periodic assumption review and BWL completed an experience study in 2017.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

BWL's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of the Board of Commissioners. It is the policy of the BWL to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2018 and 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|------------------------|--------------------------|
| U.S. Equities | 40% |
| Non-U.S. Equities | 20% |
| Global Fixed Income | 25% |
| Commercial Real Estate | 15% |

The long-term expected rate of return on OPEB 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 OPEB 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. The best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------|---|
| Core bonds | 2.7% |
| Multi-Sector | 3.6 |
| Absolute return | 3.8 |
| U.S. large cap equity | 7.5 |
| U.S. small cap equity | 8.8 |
| Non-U.S. equity | 8.7 |
| Core real estate | 5.9 |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

For the June 30, 2017 valuation, the long-term expected rate of return was 7.50%. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments was selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown. The final equivalent single discount rate used for the June 30, 2017 valuation was 7.50% with the expectation that BWL will continue contributing the actuarially determined contribution and/or paying for the pay-go cost.

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---|---|
| S&P Municipal Bond 20-year High Grade Rate Index | 2.71% |
| Fidelity 20-year Go Municipal Bond Index | 2.92% |
| Actual Discount Rate Used | 7.50% |

Discount rate – The discount rate used to measure the total OPEB liability as of June 30, 2018 and 2017 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. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

| | Increase (Decrease) | | |
|---|--------------------------------|--|----------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
| Balances at 6/30/2017 | \$ 205,624,392 | \$ 173,635,057 | \$ 31,989,335 |
| Changes for the year: | | | |
| Service cost | 4,826,401 | - | 4,826,401 |
| Interest | 15,039,052 | - | 15,039,052 |
| Differences between expected and actual experience | (9,879,514) | - | (9,879,514) |
| Changes in assumptions | (1,727,939) | - | (1,727,939) |
| Contributions-employer | - | 10,395,327 | (10,395,327) |
| Contributions-employee | - | - | - |
| Net investment income | - | 11,038,903 | (11,038,903) |
| Benefit payments | (10,395,327) | (10,395,327) | - |
| Administrative expense | - | (634,336) | 634,336 |
| Net changes | (2,137,327) | 10,404,567 | (12,541,894) |
| Balances at 6/30/2018 | \$ 203,487,065 | \$ 184,039,624 | \$ 19,447,441 |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

| | Increase (Decrease) | | |
|---|--------------------------------|--|----------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
| Balances at 6/30/2016 | <u>\$ 194,588,307</u> | <u>\$ 156,300,342</u> | <u>\$ 38,287,965</u> |
| Changes for the year: | | | |
| Service cost | 3,130,487 | – | 3,130,487 |
| Interest | 14,226,364 | – | 14,226,364 |
| Differences between expected and actual experience | 5,280,548 | – | 5,280,548 |
| Changes in assumptions | (2,027,643) | – | (2,027,643) |
| Contributions–employer | – | 9,573,671 | (9,573,671) |
| Contributions–employee | – | – | – |
| Net investment income | – | 18,039,508 | (18,039,508) |
| Benefit payments | (9,573,671) | (9,573,671) | – |
| Administrative expense | – | (704,793) | 704,793 |
| Net changes | <u>11,036,085</u> | <u>17,334,715</u> | <u>(6,298,630)</u> |
| Balances at 6/30/2017 | <u><u>\$ 205,624,392</u></u> | <u><u>\$ 173,635,057</u></u> | <u><u>\$ 31,989,335</u></u> |

Sensitivity of the net OPEB liability (asset) to changes in the discount rate – The following presents the net OPEB liability (asset) of BWL, as well as what BWL’s net OPEB liability (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 discount rate (7.5 percent) as of June 30, 2018 and 2017:

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

| | June 30, 2018 | | |
|----------------------------|--------------------|------------------------------|--------------------|
| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
| Net OPEB Liability (asset) | \$43,845,533 | \$19,447,441 | \$(991,597) |

| | June 30, 2017 | | |
|--------------------|--------------------|------------------------------|--------------------|
| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
| Net OPEB Liability | \$57,428,880 | \$31,989,336 | \$10,788,919 |

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates
 – The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1–percentage–point lower (8.0 percent decreasing to 4.0 percent) or 1–percentage–point higher (10.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates as of June 30, 2018 and 2017:

| | June 30, 2018 | | |
|----------------------------|--------------------|------------------------------------|--------------------|
| | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rates</u> | <u>1% Increase</u> |
| Net OPEB Liability (asset) | \$(2,824,476) | \$19,447,441 | \$46,517,181 |

| | June 30, 2017 | | |
|--------------------|--------------------|------------------------------------|--------------------|
| | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rates</u> | <u>1% Increase</u> |
| Net OPEB Liability | \$9,860,495 | \$31,989,336 | \$58,978,628 |

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light June 30, 2018 GASB 74/75 Report, issued July 25, 2018.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

For the year ended June 30, 2018, the Plan recognized OPEB expense of \$5,316,416. At June 30, 2018, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 3,655,674 | \$ 8,331,001 |
| Changes of assumptions | - | 2,860,855 |
| Net difference between projected and actual earnings on OPEB plan investments | <u>-</u> | <u>2,203,522</u> |
| Total | <u>\$ 3,655,674</u> | <u>\$ 13,395,378</u> |

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

Year Ended June 30:

| | |
|------------|----------------|
| 2019 | \$ (2,184,101) |
| 2020 | (2,184,101) |
| 2021 | (2,184,101) |
| 2022 | (926,831) |
| 2023 | (1,569,127) |
| Thereafter | (691,443) |

For the year ended June 30, 2017, the Plan recognized OPEB expense of \$5,551,672. At June 30, 2017, the Plan reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 4,468,156 | \$ - |
| Changes of assumptions | - | 1,715,698 |
| Net difference between projected and actual earnings on OPEB plan investments | <u>-</u> | <u>5,029,089</u> |
| Total | <u>\$ 4,468,156</u> | <u>\$ 6,744,787</u> |

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 8 – Retirement Plans (Continued)

Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457. 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 \$1,500 in a calendar year.

Note 9 – Commitments and Contingencies

At June 30, 2018 and 2017, the BWL has two letters of credit in the amounts of \$817,000 and \$1,000,000 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

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 received landfill closure approval as well as interim remediation approval. The BWL has estimated the total cost for remediation, including closure and postclosure cost of the landfills, and has recorded a liability of \$7,321,928 and \$7,608,844 for the years ended June 30, 2018 and 2017, 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).

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 9 – Commitments and Contingencies (Continued)

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

The BWL is involved in various other legal actions which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2018 and 2017 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling \$9,792,000 through December 31, 2020. 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 \$18,066,000 through December 2019.

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete various projects is approximately \$492,873,000 and \$120,767,000 at June 30, 2018 and 2017, respectively, including commitments on existing construction contracts approximating \$122,664,000 and \$12,676,000 at June 30, 2018 and 2017, respectively. These projects will be funded through revenue bonds and 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.

Environmental Protection Agency (EPA) Notice of Finding of Violation

On March 19, 2015, the EPA served the BWL with a Notice of Finding of Violation specifically focused on BWL's Erickson capital projects. As of the date of the financial statements the matter is still being negotiated. The BWL anticipates a settlement cost of \$275,000 and mitigation costs of \$400,000. The mitigation costs will be incurred over 3 years once the matter is settled and the entire cost is included in the financial statements as presented.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 10 – Power Supply Purchase

In 1983, the BWL entered into 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.

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.

| <u>Year</u> | <u>Debt Service and Capital</u> | <u>Estimated Fixed Operating Costs</u> | <u>Total Required</u> |
|-------------|-------------------------------------|--|---------------------------|
| 2019 | \$ <u> -</u> | \$ <u>13,737,534</u> | \$ <u>13,737,534</u> |
| Total | \$ <u> -</u> | \$ <u>13,737,534</u> | \$ <u>13,737,534</u> |

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

The BWL recognized expenses for 2018 and 2017 of \$36,653,466 and \$53,418,377, 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 10 – Power Supply Purchase (Continued)

The BWL has entered into agreements with Energy Developments Limited, formerly Granger Electric Company, to purchase power generated from landfill gases. The agreements will expire as of June 30, 2028 and September 30, 2028. The power to be purchased in the contract is 11.2 megawatts. The estimated total cost of electricity expected to be purchased for the remainder of these contracts is \$80,058,000.

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, 2013A, and 2017A 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, 2018 and 2017. 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.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

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.

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 | | |
|--|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Unpaid claims – Beginning of year | \$ 2,200,000 | \$ 2,200,000 | \$ 2,200,000 | \$ 1,167,466 | \$ 1,167,466 | \$ 1,188,172 |
| Incurred claims, including claims incurred but not reported | 128,524 | 86,951 | 348,038 | 14,494,539 | 13,838,436 | 13,797,887 |
| Claim payments | <u>(128,524)</u> | <u>(86,951)</u> | <u>(348,038)</u> | <u>(14,494,539)</u> | <u>(13,838,436)</u> | <u>(13,818,593)</u> |
| Unpaid claims – End of year | <u>\$ 2,200,000</u> | <u>\$ 2,200,000</u> | <u>\$ 2,200,000</u> | <u>\$ 1,167,466</u> | <u>\$ 1,167,466</u> | <u>\$ 1,167,466</u> |

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

Note 13 – Upcoming Pronouncements

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. When they become effective, application of these standards may restate portions of these financial statements.

Board of Water and Light – City of Lansing, Michigan

Notes to Financial Statements As of and for the Years Ended June 30, 2018 and 2017

Note 14 – Restatement of Net Position

The BWL adopted GASB Statement No. 75 effective July 1, 2016. Net position as of June 30, 2016 has been restated as follows:

| | |
|--|----------------------|
| Net Position – June 30, 2016 (as reported) | \$596,090,470 |
| Reverse GASB No. 45 OPEB asset | (7,781,100) |
| Record GASB No. 75 net OPEB liability | <u>(38,287,965)</u> |
| Net Position – June 30, 2016 (as restated) | <u>\$550,021,405</u> |

Net income of the prior year was increased by \$2,031,269.

Required Supplemental Information

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for Employees' Pensions**

**Required Supplemental Information (Unaudited)
Schedule of Changes in the Net Pension Asset
Last Ten Fiscal Years
(in thousands)**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012* | 2011* | 2010* | 2009* |
|---|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------|-------------|-------------|-------------|
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ 50 | \$ 113 | \$ 223 | \$ 274 | \$ 349 | \$ 407 | \$ - | \$ - | \$ - | \$ - |
| Interest | 4,031 | 4,317 | 4,625 | 4,919 | 4,751 | 5,085 | - | - | - | - |
| Changes in benefit terms | - | - | - | - | - | - | - | - | - | - |
| Differences between expected and actual experience | (230) | (383) | 299 | (1,093) | 964 | (1,716) | - | - | - | - |
| Changes in assumptions | 1,419 | (857) | (1,468) | - | 4,538 | - | - | - | - | - |
| Benefit payments, including refunds | (6,414) | (7,473) | (7,896) | (8,046) | (8,541) | (7,777) | - | - | - | - |
| Net Change in Total Pension Liability | (1,144) | (4,283) | (4,217) | (3,946) | 2,061 | (4,001) | - | - | - | - |
| Total Pension Liability - Beginning of year | 56,895 | 61,178 | 65,395 | 69,341 | 67,280 | 71,281 | - | - | - | - |
| Total Pension Liability - End of year | 55,751 | 56,895 | 61,178 | 65,395 | 69,341 | 67,280 | - | - | - | - |
| Plan Net Position | | | | | | | | | | |
| Contributions - Employer | - | - | - | - | - | - | - | - | - | - |
| Contributions - Member | - | - | - | - | - | - | - | - | - | - |
| Net investment income | 3,112 | 8,272 | 47 | 1,771 | 14,243 | 10,170 | - | - | - | - |
| Administrative expenses | (255) | (317) | (388) | (576) | (596) | (536) | - | - | - | - |
| Benefit payments, including refunds | (6,414) | (7,473) | (7,896) | (8,045) | (8,541) | (7,777) | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| Net change in Net Position Held in Trust | (3,557) | 482 | (8,237) | (6,850) | 5,106 | 1,857 | - | - | - | - |
| Net Position Restricted for Pensions - Beginning of year | 65,924 | 65,442 | 73,679 | 80,529 | 75,424 | 73,567 | - | - | - | - |
| Net Position Restricted for Pensions - End of year | 62,367 | 65,924 | 65,442 | 73,679 | 80,530 | 75,424 | - | - | - | - |
| BWL Net Pension Asset - Ending | \$ (6,616) | \$ (9,029) | \$ (4,264) | \$ (8,284) | \$ (11,189) | \$ (8,144) | \$ - | \$ - | \$ - | \$ - |
| Plan Net Position as a % of Total Pension Liability | 111.87% | 115.87% | 106.97% | 112.67% | 116.14% | 112.10% | - % | - % | - % | - % |
| Covered Employee Payroll | \$ 603 | \$ 586 | \$ 772 | \$ 1,018 | \$ 1,225 | \$ 1,684 | \$ - | \$ - | \$ - | \$ - |
| BWL's Net Pension Asset as a % of Covered Employee Payroll | (1,097%) | (1,541%) | (552%) | (814%) | (913%) | (484%) | - % | - % | - % | - % |

*GASB Statement No. 67 was implemented as of June 30, 2014. Information from 2009 - 2012 is not available and this schedule will be presented on a prospective basis.

**Lansing Board of Water and Light
Defined Benefit Plan and Trust for Employees' Pensions**

**Required Supplemental Information (Unaudited)
Schedule of Employer Contributions to the Net Pension Asset
Last Ten Fiscal Years
(in thousands)**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 86 | \$ 2,109 | \$ - |
| Contributions in relation to the actuarially determined contribution | - | - | - | - | - | - | - | 86 | 2,109 | - |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Employee Payroll | \$ 603 | \$ 586 | \$ 772 | \$ 1,018 | \$ 1,225 | \$ 1,684 | \$ 2,101 | \$ 2,398 | \$ 2,660 | \$ 3,089 |
| Contributions as a Percentage of Covered Employee Payroll | - % | - % | - % | - % | - % | - % | - % | 3.59% | 79.29% | - % |

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Changes in the Net OPEB Liability
Last Ten Fiscal Years
(in thousands)**

| | 2018 | 2017 | 2016* | 2015* | 2014* | 2013* | 2012* | 2011* | 2010* | 2009* |
|--|------------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total OPEB Liability | | | | | | | | | | |
| Service cost | \$ 4,827 | \$ 3,130 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 15,039 | 14,226 | - | - | - | - | - | - | - | - |
| Changes in benefit terms | - | - | - | - | - | - | - | - | - | - |
| Differences between expected and actual experience | (9,880) | 5,281 | - | - | - | - | - | - | - | - |
| Changes in assumptions | (1,728) | (2,027) | - | - | - | - | - | - | - | - |
| Benefit payments, including refunds | (10,395) | (9,574) | - | - | - | - | - | - | - | - |
| Net Change in Total OPEB Liability | (2,137) | 11,036 | - | - | - | - | - | - | - | - |
| Total OPEB Liability - Beginning of year | <u>205,624</u> | <u>194,588</u> | - | - | - | - | - | - | - | - |
| Total OPEB Liability - End of year | <u>203,487</u> | <u>205,624</u> | - | - | - | - | - | - | - | - |
| Trust Net Position | | | | | | | | | | |
| Contributions - Employer | 10,395 | 9,574 | - | - | - | - | - | - | - | - |
| Contributions - Member | - | - | - | - | - | - | - | - | - | - |
| Net investment income | 11,039 | 18,040 | - | - | - | - | - | - | - | - |
| Administrative expenses | (634) | (705) | - | - | - | - | - | - | - | - |
| Benefit payments, including refunds | (10,395) | (9,574) | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| Net change in Net Position Held in Trust | 10,405 | 17,335 | - | - | - | - | - | - | - | - |
| Trust fiduciary net position - Beginning of year | <u>173,635</u> | <u>156,300</u> | - | - | - | - | - | - | - | - |
| Trust fiduciary net position - End of year | <u>184,040</u> | <u>173,635</u> | - | - | - | - | - | - | - | - |
| BWL Net OPEB Liability - Ending | <u>\$ 19,447</u> | <u>\$ 31,989</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Trust Fiduciary Net Position as a % of Total OPEB Liability | 90.44% | 84.44% | - % | - % | - % | - % | - % | - % | - % | - % |
| Covered Employee Payroll | \$ 55,650 | \$ 54,383 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| BWL's Net OPEB Liability as a % of Covered Employee Payroll | 34.95% | 58.82% | - % | - % | - % | - % | - % | - % | - % | - % |

*GASB Statement No. 75 was implemented as of June 30, 2016. Information from 2009 - 2016 is not available and this schedule will be presented on a prospective basis.

**Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light**

**Required Supplemental Information (Unaudited)
Schedule of Employer Contributions to the Net OPEB Liability
Last Ten Fiscal Years
(in thousands)**

| Fiscal Year Ended | Employer Contributions | | Difference of Required to Actual Contributions | Covered Employee Payroll | Percentage of Actual Contributions to Covered Payroll |
|----------------------|------------------------|-----------|--|-----------------------------|---|
| | Required | Actual | | | |
| 6/30/2009* | \$ 18,132 | \$ 17,866 | \$ (266) | \$ - | - |
| 6/30/2010* | 21,291 | 21,318 | 27 | - | - |
| 6/30/2011 | 17,300 | 17,236 | (64) | 47,213 | 37% |
| 6/30/2012 | 15,744 | 15,854 | 110 | 46,885 | 34% |
| 6/30/2013 | 13,994 | 14,045 | 51 | 47,468 | 30% |
| 6/30/2014 | 9,200 | 9,268 | 68 | 46,971 | 20% |
| 6/30/2015 | 5,762 | 9,671 | 3,909 | 50,885 | 19% |
| 6/30/2016 | 5,788 | 9,423 | 3,635 | 53,893 | 17% |
| 6/30/2017 | 7,508 | 9,574 | 2,066 | 54,383 | 18% |
| 6/30/2018 | 7,535 | 10,395 | 2,860 | 55,650 | 19% |

*GASB Statement No. 75 was implemented as of June 30, 2016. Information from 2009 - 2010 is not available and this schedule will be presented on a prospective basis.

Additional Information

Board of Water and Light - City of Lansing, Michigan

Income Available for Revenue Bond Debt Retirement

| | <u>For the Year Ended June 30</u> | |
|--|-----------------------------------|-----------------------------|
| | <u>2018</u> | <u>2017</u> |
| Income - Before capital contributions per statement of revenues, expenses, and changes in net position | \$ 14,116,063 | \$ 6,360,409 |
| Adjustments to Income | | |
| Depreciation and impairment | 44,255,255 | 51,935,552 |
| Interest on long-term debt: | | |
| Notes | 62,210 | 51,446 |
| Revenue bonds | <u>13,331,897</u> | <u>14,703,367</u> |
| Total additional income | <u>57,649,362</u> | <u>66,690,365</u> |
| Income Available for Revenue Bonds and Interest Redemption | <u>\$ 71,765,425</u> | <u>\$ 73,050,774</u> |
| Debt Retirement Pertaining to Revenue Bonds | | |
| Principal | \$ 8,585,000 | \$ 8,210,000 |
| Interest | <u>15,295,875</u> | <u>16,049,511</u> |
| Total | <u>\$ 23,880,875</u> | <u>\$ 24,259,511</u> |
| Percent Coverage of Revenue Bonds and Interest Requirements | <u>301</u> | <u>301</u> |

Board of Water and Light - City of Lansing, Michigan

| | Combined | | Water | |
|--|----------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Operating Revenues | | | | |
| Water | \$ 41,524,143 | \$ 40,738,054 | \$ 41,524,143 | \$ 40,738,054 |
| Electric: | | | | |
| Retail | 271,414,998 | 280,955,243 | - | - |
| Sales for resale | 21,846,410 | 31,969,934 | - | - |
| Steam | 12,072,017 | 11,404,174 | - | - |
| Chilled water | 6,225,356 | 6,362,308 | - | - |
| | | | | |
| Total operating revenues | 353,082,924 | 371,429,713 | 41,524,143 | 40,738,054 |
| Operating Expenses | | | | |
| Production: | | | | |
| Fuel, purchased power, and other operating expenses | 142,679,119 | 161,787,983 | 8,900,728 | 8,782,872 |
| Maintenance | 16,474,970 | 18,725,293 | 3,303,312 | 3,074,073 |
| Transmission and distribution: | | | | |
| Operating expenses | 7,929,917 | 10,139,726 | 1,639,903 | 1,392,291 |
| Maintenance | 19,983,487 | 15,839,208 | 3,211,987 | 2,827,509 |
| Administrative and general | 73,638,904 | 71,417,820 | 12,964,161 | 10,966,026 |
| Return on Equity | 20,561,871 | 21,862,457 | 2,465,989 | 2,429,849 |
| Depreciation | 44,255,255 | 42,598,423 | 6,717,444 | 6,657,053 |
| | | | | |
| Total operating expenses | 325,523,523 | 342,370,910 | 39,203,524 | 36,129,673 |
| | | | | |
| Operating Income | 27,559,401 | 29,058,803 | 2,320,619 | 4,608,381 |
| Nonoperating Income (Expenses) | | | | |
| Investment income | 834,087 | 914,829 | (28,686) | 98,653 |
| Other (expense) income | (883,318) | 478,719 | 733,527 | 923,068 |
| Impairment on Eckert Plant | - | - | - | - |
| Impairment on Erickson Plant | - | (9,337,129) | - | - |
| Bonded debt interest expense | (13,331,897) | (14,703,367) | (1,391,610) | (1,758,663) |
| Amortization - Central Utilities Complex | - | - | - | - |
| Other interest expense | (62,210) | (51,446) | (7,070) | (4,419) |
| | | | | |
| Total nonoperating expense | (13,443,338) | (22,698,394) | (693,839) | (741,361) |
| | | | | |
| Net Income (Loss) | \$ 14,116,063 | \$ 6,360,409 | \$ 1,626,780 | \$ 3,867,020 |

**Detail of Statements of Revenues and Expenses
For the Years Ended June 30, 2018 and 2017**

| Electric | | Steam | | Chilled Water | |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 271,414,998 | 280,955,243 | - | - | - | - |
| 21,846,410 | 31,969,934 | - | - | - | - |
| - | - | 12,072,017 | 11,404,174 | - | - |
| - | - | - | - | 6,225,356 | 6,362,308 |
| 293,261,408 | 312,925,177 | 12,072,017 | 11,404,174 | 6,225,356 | 6,362,308 |
| 127,702,294 | 146,768,880 | 4,637,601 | 4,450,412 | 1,438,496 | 1,785,819 |
| 12,257,504 | 14,887,491 | 722,446 | 409,666 | 191,708 | 354,063 |
| 5,977,257 | 8,442,706 | 312,757 | 304,729 | - | - |
| 16,329,536 | 12,569,323 | 441,964 | 442,376 | - | - |
| 58,806,770 | 58,674,904 | 1,300,400 | 1,346,580 | 567,573 | 430,310 |
| 17,067,336 | 18,418,803 | 652,087 | 625,702 | 376,459 | 388,103 |
| 33,825,801 | 32,004,536 | 2,525,735 | 2,538,286 | 1,186,275 | 1,398,548 |
| 271,966,498 | 291,766,643 | 10,592,990 | 10,117,751 | 3,760,511 | 4,356,843 |
| 21,294,910 | 21,158,534 | 1,479,027 | 1,286,423 | 2,464,845 | 2,005,465 |
| 848,930 | 695,357 | 22,278 | 88,579 | (8,435) | 32,240 |
| (1,289,108) | (270,184) | (549,009) | (397,548) | 221,272 | 223,383 |
| - | - | - | - | - | - |
| - | (9,337,129) | - | - | - | - |
| (9,508,962) | (10,339,513) | (1,855,996) | (1,966,111) | (575,329) | (639,080) |
| - | - | - | - | - | - |
| (55,119) | (47,003) | (21) | (24) | - | - |
| (10,004,259) | (19,298,472) | (2,382,748) | (2,275,104) | (362,492) | (383,457) |
| \$ 11,290,651 | \$ 1,860,062 | \$ (903,721) | \$ (988,681) | \$ 2,102,353 | \$ 1,622,008 |

Board of Water and Light - City of Lansing, Michigan

Detail of Statements of Changes in Net Position

| | Combined | Water | Electric | Steam | Chilled Water |
|--|-----------------------|----------------------|-----------------------|-----------------------|---------------------|
| Net Position - June 30, 2016, as restated | \$ 550,021,405 | \$ 88,611,523 | \$ 461,923,972 | \$ (3,968,012) | \$ 3,453,922 |
| Income (loss) before contributions | <u>6,360,409</u> | <u>3,867,020</u> | <u>1,860,062</u> | <u>(988,681)</u> | <u>1,622,008</u> |
| Net Position - June 30, 2017 | 556,381,814 | 92,478,543 | 463,784,034 | (4,956,693) | 5,075,930 |
| Income (loss) before contributions | <u>14,116,063</u> | <u>1,626,780</u> | <u>11,290,651</u> | <u>(903,721)</u> | <u>2,102,353</u> |
| Net Position - June 30, 2018 | <u>\$ 570,497,877</u> | <u>\$ 94,105,323</u> | <u>\$ 475,074,685</u> | <u>\$ (5,860,414)</u> | <u>\$ 7,178,283</u> |

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statements of Net Position

| As of June 30, 2018 | | | | |
|---|----------------------------------|---------------------------------|----------------------------------|----------------------------------|
| | Defined Contribution Plan | Defined Benefit Plan | VEBA | Total |
| Assets | | | | |
| Receivable - investment interest receivable | \$ - | \$ 148,763 | \$ 404,369 | \$ 553,132 |
| Trade receivable - due from broker | - | 11,853 | - | 11,853 |
| Investments at fair value: | | | | |
| Cash and money market trust fund | - | 1,890,701 | 1,985,712 | 3,876,413 |
| U.S. government obligations | - | 7,966,488 | 26,527,961 | 34,494,449 |
| Fixed income securities | - | 12,372,866 | 34,748,141 | 47,121,007 |
| Mutual funds | 153,737,225 | 26,341,508 | 72,109,667 | 252,188,400 |
| Stable value | 35,135,911 | - | - | 35,135,911 |
| Partnership | - | - | - | - |
| Common stock | - | 13,634,806 | 48,418,160 | 62,052,966 |
| Self-directed brokerage account | 2,144,556 | - | - | 2,144,556 |
| Participant notes receivable | <u>3,649,872</u> | - | - | <u>3,649,872</u> |
| Total investments | <u>194,667,564</u> | <u>62,206,369</u> | <u>183,789,641</u> | <u>440,663,574</u> |
| Liabilities | | | | |
| Trade payable - due to broker | - | - | 154,385 | 154,385 |
| Net Position - Held in trust for pension and other employee benefits | <u>\$ 194,667,564</u> | <u>\$ 62,366,985</u> | <u>\$ 184,039,625</u> | <u>\$ 441,074,174</u> |

| As of June 30, 2017 | | | | |
|---|----------------------------------|---------------------------------|----------------------------------|----------------------------------|
| | Defined Contribution Plan | Defined Benefit Plan | VEBA | Total |
| Assets | | | | |
| Receivable - investment interest receivable | \$ - | \$ 153,010 | \$ 425,197 | \$ 578,207 |
| Trade receivable - due from broker | - | 46,051 | 88,410 | 134,461 |
| Investments at fair value: | | | | |
| Cash and money market trust fund | - | 1,088,909 | 2,927,461 | 4,016,370 |
| U.S. government obligations | - | 9,053,469 | 29,051,025 | 38,104,494 |
| Fixed income securities | - | 12,156,276 | 33,706,611 | 45,862,887 |
| Mutual funds | 144,942,486 | 22,381,599 | 53,089,093 | 220,413,178 |
| Stable value | 35,270,975 | - | - | 35,270,975 |
| Partnership | - | 1,117,790 | - | 1,117,790 |
| Common stock | - | 19,938,242 | 54,440,986 | 74,379,228 |
| Self-directed brokerage account | 1,826,494 | - | - | 1,826,494 |
| Participant notes receivable | <u>3,899,938</u> | - | - | <u>3,899,938</u> |
| Total investments | <u>185,939,893</u> | <u>65,736,285</u> | <u>173,215,176</u> | <u>424,891,354</u> |
| Liabilities | | | | |
| Trade payable - due to broker | - | 11,533 | 93,727 | 105,260 |
| Net Position - Held in trust for pension and other employee benefits | <u>\$ 185,939,893</u> | <u>\$ 65,923,813</u> | <u>\$ 173,635,056</u> | <u>\$ 425,498,762</u> |

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position For the Year Ended June 30, 2018

| | Defined Contribution Plan | Defined Benefit Plan | VEBA | Total |
|---|---------------------------------|-----------------------------|------------------------------|------------------------------|
| Increases | | | | |
| Investment income (loss): | | | | |
| Net appreciation (depreciation) in fair value of investments | \$ 8,851,973 | \$ 1,521,207 | \$ 6,742,518 | \$ 17,115,698 |
| Interest and dividend income | <u>8,778,719</u> | <u>1,590,883</u> | <u>4,296,385</u> | <u>14,665,987</u> |
| Net investment income (loss) | 17,630,692 | 3,112,090 | 11,038,903 | 31,781,685 |
| Employer contributions | 6,534,888 | - | 10,395,327 | 16,930,215 |
| Participant rollover contributions | 1,648,509 | - | - | 1,648,509 |
| Interest from participant notes receivable | <u>156,090</u> | <u>-</u> | <u>-</u> | <u>156,090</u> |
| Total increases | 25,970,179 | 3,112,090 | 21,434,230 | 50,516,499 |
| Decreases | | | | |
| Retiree benefits paid | 16,928,587 | 6,413,954 | 10,395,327 | 33,737,868 |
| Loan defaults | 209,514 | - | - | 209,514 |
| Participants' note and administrative fees | <u>104,407</u> | <u>254,964</u> | <u>634,334</u> | <u>993,705</u> |
| Total decreases | <u>17,242,508</u> | <u>6,668,918</u> | <u>11,029,661</u> | <u>34,941,087</u> |
| Change in Net Position Held in Trust | 8,727,671 | (3,556,828) | 10,404,569 | 15,575,412 |
| Net Position Held in Trust for Pension and Other Employee Benefits | | | | |
| Beginning of year | <u>185,939,893</u> | <u>65,923,813</u> | <u>173,635,056</u> | <u>425,498,762</u> |
| End of year | <u>\$ 194,667,564</u> | <u>\$ 62,366,985</u> | <u>\$ 184,039,625</u> | <u>\$ 441,074,174</u> |

Board of Water and Light - City of Lansing, Michigan

Pension Trust Funds - Detail of Statement of Changes in Net Position For the Year Ended June 30, 2017

| | Defined Contribution Plan | Defined Benefit Plan | VEBA | Total |
|---|---------------------------------|-------------------------|-----------------------|-----------------------|
| Increases | | | | |
| Investment income (loss): | | | | |
| Net appreciation (depreciation) in fair value of investments | \$ 15,347,096 | \$ 6,553,152 | \$ 13,724,335 | \$ 35,624,583 |
| Interest and dividend income | <u>4,144,461</u> | <u>1,718,523</u> | <u>4,315,172</u> | <u>10,178,156</u> |
| Net investment income (loss) | 19,491,557 | 8,271,675 | 18,039,507 | 45,802,739 |
| Employer contributions | 6,052,720 | - | 9,573,671 | 15,626,391 |
| Participant rollover contributions | 1,051,032 | - | - | 1,051,032 |
| Interest from participant notes receivable | <u>156,466</u> | <u>-</u> | <u>-</u> | <u>156,466</u> |
| Total increases | 26,751,775 | 8,271,675 | 27,613,178 | 62,636,628 |
| Decreases | | | | |
| Retiree benefits paid | 11,877,805 | 7,472,625 | 9,573,671 | 28,924,101 |
| Loan defaults | 72,325 | - | - | 72,325 |
| Participants' note and administrative fees | <u>93,067</u> | <u>317,072</u> | <u>704,793</u> | <u>1,114,932</u> |
| Total decreases | <u>12,043,197</u> | <u>7,789,697</u> | <u>10,278,464</u> | <u>30,111,358</u> |
| Change in Net Position Held in Trust | 14,708,578 | 481,978 | 17,334,714 | 32,525,270 |
| Net Position Held in Trust for Pension and Other Employee Benefits | | | | |
| Beginning of year | <u>171,231,315</u> | <u>65,441,835</u> | <u>156,300,342</u> | <u>392,973,492</u> |
| End of year | <u>\$ 185,939,893</u> | <u>\$ 65,923,813</u> | <u>\$ 173,635,056</u> | <u>\$ 425,498,762</u> |