

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

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

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

	Contents
Independent Auditors' Report	1-2
Required Supplementary Information	
Management's Discussion and Analysis	3-4
Financial Statements	
Statement of Fiduciary Net Position	5
Statement of Changes in Fiduciary Net Position	6
Notes to Financial Statements	7-20
Required Supplementary Information	
Schedule of Changes in Net OPEB Liability and Related Ratios	21
Schedule of Employer Contributions	22
Schedule of Investment Returns	23
Notes to Required Supplementary Information	24

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the City Council,
and Commissioners of the Board of Water and Light
Post-Retirement Benefit Plan and Trust for Eligible
Employees of Lansing Board of Water and Light
City of Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan"), a trust fund of Lansing Board of Water and Light, as of and for the years ended June 30, 2018 and 2017, and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 11, 2018

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

Required Supplementary Information (Unaudited) Management's Discussion and Analysis

Using this Annual Report

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

Condensed Financial Information

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

	2018	2017	2016
Assets held in trust:			
Cash and money market trust funds	\$ 1,985,712	\$ 2,927,461	\$ 13,498,404
Fixed income securities	34,748,141	33,706,611	28,725,054
U.S. government obligations	26,527,961	29,051,025	21,458,288
Equities	48,418,160	54,440,986	77,022,878
Mutual funds and other	72,109,667	53,089,093	15,208,788
Interest and dividend receivable	404,369	425,197	386,930
Trade Receivable - Due from Broker	-	88,410	-
Total plan assets	<u>\$ 184,194,010</u>	<u>\$ 173,728,783</u>	<u>\$ 156,300,342</u>
Liabilities:			
Trade Payable - Due to Broker	\$ 154,385	\$ 93,727	\$ -
Net Position Restricted for Pensions	<u>\$ 184,039,625</u>	<u>\$ 173,635,056</u>	<u>\$ 156,300,342</u>
Changes in net position:			
Net investment income	\$ 11,038,903	\$ 18,039,507	\$ 948,996
Employer contributions	10,395,327	9,573,671	9,423,081
Retiree benefits paid	(10,395,327)	(9,573,671)	(9,423,081)
Administrative fees	(634,334)	(704,793)	(831,872)
Net change in net position	<u>\$ 10,404,569</u>	<u>\$ 17,334,714</u>	<u>\$ 117,124</u>

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

Management’s Discussion and Analysis (Continued)

Investment Objectives and Asset Allocation

The assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Plan, the BWL has taken into account the time horizon available for investment, the nature of the Plan’s cash flows and liabilities, and other factors that affect the Plan’s risk tolerance. Consistent with this, the BWL has determined that the investment objective is income and growth. This investment objective is a balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long term.

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

U.S. Equities	40%
Non-U.S. Equities	20%
Global Fixed Income	25%
Commercial Real Estate	15%

Investment Results

The fiscal year ended June 30, 2018 saw a net investment income, net of administrative expenses, of \$10.4 million. We believe this performance is in line with the overall level of recovery experienced by the stock and bond markets.

Future Events

The BWL is funding its other postemployment benefits (OPEBs) and is intending to meet its actuarially determined contributions (ADC).

Contacting the Plan’s Management

This financial report is intended to provide a general overview of the Plan’s finances and to show accountability for the money it receives. If you have questions about this report or need additional information, you may write to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

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

Statement of Fiduciary Net Position

	As of June 30	
	2018	2017
Assets		
Investments - fair value:		
Cash and money market trust funds	\$ 1,985,712	\$ 2,927,461
Fixed income securities	34,748,141	33,706,611
U.S. government obligations	26,527,961	29,051,025
Equities	48,418,160	54,440,986
Mutual funds	72,109,667	53,089,093
Total investments at fair value	183,789,641	173,215,176
Investment interest and dividend receivable	404,369	425,197
Trade receivable - due from broker	-	88,410
Total assets	184,194,010	173,728,783
Liabilities		
Trade payable - due to broker	154,385	93,727
Net position restricted for retiree benefits	\$ 184,039,625	\$ 173,635,056

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

Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2018	2017
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 6,742,518	\$ 13,724,335
Interest and dividend income	4,296,385	4,315,172
Total investment income	11,038,903	18,039,507
Employer contributions	10,395,327	9,573,671
Total additions	21,434,230	27,613,178
Deductions		
Retiree benefits paid	10,395,327	9,573,671
Administrative expenses	634,334	704,793
Total deductions	11,029,661	10,278,464
Net Increase in Net Position	10,404,569	17,334,714
Net Position Restricted for Retiree Benefits		
Beginning of year	173,635,056	156,300,342
End of year	\$ 184,039,625	\$ 173,635,056

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

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

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Board of Water and Light - City of Lansing, Michigan ("BWL") sponsors the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light ("Plan"), which is a single-employer defined benefit healthcare plan. The Plan was established on October 20, 1999, effective as of July 1, 1999, for the purpose of accumulating assets to fund retiree healthcare insurance costs in future years.

Accounting and Reporting Principles

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

Basis of Accounting

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Employer contributions to the Plan are recognized when due pursuant to legal requirements.

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Report Presentation

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

Investment Valuation and Income Recognition - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

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

Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation (Continued)

Expenses – Substantially all costs and expenses incurred in connection with the operation and administration of the Plan are paid by the BWL, the plan sponsor. The Plan pays all transaction expenses incurred in connection with the investment accounts.

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 at the date of the financial statements. Actual results could differ from those estimates.

Effect of New Accounting Standards on Current Period Financial Statements – GASB has approved GASB Statement No. 84, Fiduciary Activities. When it becomes effective, application of this standard may restate portions of these financial statements.

Note 2 - Description of the Plan

The following description of the Plan, a trust fund of the BWL, provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

General – The Plan was established on October 20, 1999, effective as of July 1, 1999, to constitute a voluntary employee beneficiary association (VEBA) under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended. The Plan was formed for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years.

The Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. The City Charter grants the authority to establish and amend the benefit terms to BWL. 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.

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

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

Note 2 - Description of the Plan (Continued)

Benefits – Benefits shall not be paid from this Plan to participants or their beneficiaries during a plan year in which there has been a “qualified transfer” pursuant to Internal Revenue Code Section 420(e)(1)(8) from the Lansing Board of Water and Light Defined Benefit Plan for the Employees' Pensions, except that once the “qualified transfer” has been exhausted for the purpose of paying qualified current retiree health liabilities, benefit payments may be made under this Plan consistent with Internal Revenue Code Section 420(e)(1)(B). After “qualified transfers” have been exhausted, benefits paid under this Plan shall be those benefits described in the relevant sections of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Trustees – Each voting member of the BWL Board of Commissioners is a Trustee during the term of office as a commissioner. The trustees have appointed Fifth Third Bank as custodian of the Plan's assets.

Contributions – Section 5–203 of the City Charter grants the authority to establish and amend the contribution requirement of the City and Plan members to BWL. The retiree benefits are paid by BWL's general cash flow to the third party administrators who process participant claims. These payments represent contributions to the Plan. Employer contributions in the statement of changes in trust net position are equal to the retiree benefits paid because the actuarially determined contribution (ADC) for the year ended June 30, 2018 was less than the pay-as-you-go amount. 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 retiree benefit payments. The BWL may make additional contributions in such a manner and at such times as appropriate. All contributions received, together with the income thereon, are held, invested, reinvested, and administered by the trustees pursuant to the terms of the Plan agreement. Additional contributions are only made to the Plan if the ADC is more than the pay-as-you-go amount. No employee contributions are allowed under this Plan. Contributions are recognized when due and when the amount to be contributed is committed by the BWL. For the years ended June 30, 2018 and 2017, the contribution rates of the employers were 18.7 percent and 17.6 percent of covered-employee payroll, respectively.

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

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

Note 2 – Description of the Plan (Continued)

Participation – Participation in this Plan is determined in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2018, there were 703 active participants (not eligible to receive benefits), 77 disabled participants, 506 retired participants, and 145 surviving spouses participating in the Plan. At June 30, 2017, there were 713 active participants (not eligible to receive benefits), 76 disabled participants, 453 retired participants, and 129 surviving spouses participating in the Plan.

Vesting – Benefits become payable in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light. At no time will benefits of the Postretirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light be vested. The BWL may reduce or eliminate any or all plan benefits at any time, subject to the requirements of any collective bargaining agreement.

Termination – In the event of plan termination, all plan assets shall be used to purchase additional eligible benefits in accordance with the terms of the plan agreement. In the event of dissolution, merger, consolidation, or reorganization of the BWL, the Plan shall terminate and liquidate in a manner consistent with the plan agreement unless the Plan is continued by a successor to the BWL.

Note 3 - Cash, Investments, and Fair Disclosure

The Lansing Board of Water and Light Retiree Benefit Plan and Trust has adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

The Plan is authorized through Public Act 149 of 1999 to invest in accordance with Public Act 314 of 1965, as amended, allows the Plan to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

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

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

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

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

Custodial Credit Risk of Bank Deposits

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

Custodial Credit Risk of Investments

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

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. At June 30, 2018, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government obligations	\$ 26,527,961	13.71 years
Fixed income securities	34,748,141	12.76 years
Money market trust funds	1,985,712	Less than 1 year
Portfolio weighted average maturity	-	13.17 years

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

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

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

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

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 29,051,025	13.98 years
Fixed income securities	33,706,611	13.32 years
Money market trust funds	2,927,457	Less than 1 year
Portfolio weighted average maturity	-	13.63 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of June 30, 2018, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations - implicitly guaranteed	\$ 10,714,313	AA+	S&P
U.S. government obligations - implicitly guaranteed	358,216	AA-	S&P
Fixed income securities	3,340,664	AAA	S&P
Fixed income securities	13,459,587	AA+	S&P
Fixed income securities	1,916,108	AA	S&P
Fixed income securities	429,721	AA-	S&P
Fixed income securities	768,211	A+	S&P
Fixed income securities	3,362,702	A	S&P
Fixed income securities	2,850,465	A-	S&P
Fixed income securities	4,246,060	BBB+	S&P
Fixed income securities	3,082,112	BBB	S&P
Fixed income securities	1,285,971	BBB-	S&P
Fixed income securities	6,540	B+	S&P
Money market trust funds	1,985,712	Not rated	Not rated

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

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

Note 3 – Cash, Investments, and Fair Disclosure (Continued)

As of June 30, 2017, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations – implicitly guaranteed	\$ 11,961,284	AA+	S&P
U.S. government obligations – implicitly guaranteed	354,934	AA-	S&P
Fixed income securities	2,311,039	AAA	S&P
Fixed income securities	11,990,156	AA+	S&P
Fixed income securities	1,056,764	AA	S&P
Fixed income securities	1,171,286	AA-	S&P
Fixed income securities	687,043	A+	S&P
Fixed income securities	3,895,779	A	S&P
Fixed income securities	2,721,066	A-	S&P
Fixed income securities	5,995,197	BBB+	S&P
Fixed income securities	2,578,080	BBB	S&P
Fixed income securities	1,300,201	BBB-	S&P
Money market trust funds	2,927,457	Not rated	Not rated

Note 4 - Tax Status

The Plan is exempt under Internal Revenue Code Section 501(c)(9) and received an exemption letter as of February 9, 2000. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan.

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

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

Note 5 – Plan Investments - Policy and Rate of Return

BWL's policy in regard to the allocation of invested assets is established and may be amended by the BWL Board by a majority vote of its members. It is the policy of the BWL Board 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 Board's 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%

Rate of Return – For the years ended June 30, 2018 and 2017, the annual money-weighted rate of return on investments, net of investment expense, was 5.66% and 10.01%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 – Net OPEB Liability of BWL

Net OPEB Liability of BWL – In the prior year, the Plan implemented GASB Statement No. 74. The following disclosures relate to the new standard. The components of the net OPEB liability for BWL at June 30, 2018 and 2017 were as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total OPEB Liability	\$ 203,487,066	\$ 205,624,392
Plan fiduciary net position	<u>(184,039,625)</u>	<u>(173,635,056)</u>
BWL's net OPEB liability	<u>\$ 19,447,441</u>	<u>\$ 31,989,336</u>
Plan fiduciary net position as a percentage of the total OPEB Liability	90.44%	84.44%

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

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

Note 6 – Net OPEB Liability of BWL (Continued)

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
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.
Long-term expected Rate of Return	7.5%
Healthcare cost trend rates	9.0% for 2019 (2018 in prior year), decreasing 0.5% per year to an ultimate rate of 5.0% in 2027 (2026 in prior year) and later years

For the June 30, 2018 valuation, mortality rates were based on the RPH-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using an MP-2017 Projection Scale. For the June 30, 2017 valuation, 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, projected to 2016 using MP-2016 improvement).

Best actuarial practices call for a periodic assumption review and BWL had completed an experience study in 2017. At that time, Nyhart recommended BWL to complete another experience study prior to the fiscal year ending June 30, 2022 valuation.

For the June 30, 2018 valuation, the long-term expected rate of return is 7.50%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return 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 for each major asset class included in the target asset allocation as of June 30, 2018 are as follows:

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

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

Note 6 – Net OPEB Liability of BWL (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core bonds	2.74%
Multi-sector	3.60%
Absolute return	3.82%
U.S. large cap equity	7.53%
U.S. small cap equity	8.79%
Non-U.S. equity	8.73%
Core real estate	5.91%

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 was 7.5%. The discount rate is based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

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

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

Note 6 – Net OPEB Liability of BWL (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of BWL, as well as what BWL's net OPEB liability 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:

	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 to changes in the healthcare cost trend rates – The following presents the net OPEB liability of BWL, as well as what BWL's net OPEB liability 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

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

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

Note 7 – Fair Value Measurements

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
- > quoted prices for similar assets or liabilities in active markets;
 - > quoted prices for identical or similar assets or liabilities in inactive markets;
 - > inputs other than quoted prices that are observable for the asset or liability;
 - > inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
 - > 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: Valued at the quoted net asset value ("NAV") of shares held by the Plan at year end.

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

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

Note 7 – Fair Value Measurements (Continued)

Common Stock, Fixed income securities, and U.S. government obligations: 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.

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.

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			
	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	\$ 3	\$ 1,985,709	\$ -	\$ 1,985,712
Fixed income securities	-	34,748,141	-	34,748,141
U.S. government obligations	-	26,527,961	-	26,527,961
Common Stock	48,418,160	-	-	48,418,160
Mutual funds	-	72,109,667	-	72,109,667
Total	<u>\$ 48,418,163</u>	<u>\$ 135,371,478</u>	<u>\$ -</u>	<u>\$ 183,789,641</u>

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

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

Note 7 – Fair Value Measurements (Continued)

Investment Type	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ 4	\$ 2,927,457	\$ -	\$ 2,927,461
Fixed income securities	-	33,706,611	-	33,706,611
U.S. government obligations	-	29,051,025	-	29,051,025
Common Stock	54,440,986	-	-	54,440,986
Mutual funds	-	53,089,093	-	53,089,093
Total	<u>\$ 54,440,990</u>	<u>\$ 118,774,186</u>	<u>\$ -</u>	<u>\$ 173,215,176</u>

Note 8 – Risks and Uncertainties

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

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

Note 9 – Subsequent Events

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

Required Supplementary Information

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

**Required Supplemental Information (Unaudited)
Schedule of Changes in BWL's
Net OPEB Liability and Related Ratios
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	203,487	205,624	-	-	-	-	-	-	-	-
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. 74 was implemented as of June 30, 2017. Information from 2008 - 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
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. 74 was implemented as of June 30, 2017. Information from 2008 - 2010 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 Investment Returns
Last Ten Fiscal Years**

	2018	2017	2016	2015'	2014'	2013'	2012'	2011'	2010'	2009'
Annual money-weighted rate of return net of investment expense	5.66%	10.01%	0.32%	- %	- %	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2008 - 2015 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

Note to Required Supplementary Information (Unaudited) Years Ended June 30, 2018 and 2017

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2018, based on roll-forward of February 28, 2018 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	30 years
Inflation	3.0 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+
Investment rate of return	7.5 percent per year compounded annually
Mortality	RPH-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using an MP-2017 Projection Scale

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2017, based on roll-forward of February 28, 2017 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	30 years
Inflation	3.0 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+
Investment rate of return	7.5 percent per year compounded annually
Mortality	RPH-2016 Total Dataset Mortality Table fully generational with MP-2016 Improvement Scale