

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

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

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Plan for Lansing Board of Water and Light Defined Benefit Plan and Trust for Employees' Pensions ("Plan") 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

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

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
	<u> </u>	<u> </u>	<u> </u>
Assets held in trust:			
Money market collective trust fund	\$ 1,890,701	\$ 1,088,909	\$ 746,554
U.S. government obligations	7,966,488	9,053,469	7,565,160
Fixed income securities	12,372,866	12,156,276	10,491,022
Mutual funds	26,341,508	22,381,599	7,908,757
Partnership	-	1,117,790	1,101,086
Common stock	13,634,806	19,938,242	37,486,031
Trade Receivable due from Broker	11,853	46,051	-
Interest and dividend receivable	148,763	153,010	143,225
Total assets held in trust	<u>\$ 62,366,985</u>	<u>\$ 65,935,346</u>	<u>\$ 65,441,835</u>
Liabilities - Accrued liabilities	\$ -	\$ 11,533	\$ -
Net position restricted for pension	<u>62,366,985</u>	<u>65,923,813</u>	<u>65,441,835</u>
Total liabilities and net position	<u>\$ 62,366,985</u>	<u>\$ 65,935,346</u>	<u>\$ 65,441,835</u>
Changes in net position:			
Net investment income (loss)	\$ 3,112,090	\$ 8,271,675	\$ 46,762
Benefits payments	(6,413,954)	(7,472,625)	(7,895,766)
Administrative fees	(254,964)	(317,072)	(388,495)
Net change in net position	<u>\$ (3,556,828)</u>	<u>\$ 481,978</u>	<u>\$ (8,237,499)</u>

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

Management's Discussion and Analysis (Continued)

During fiscal year 2018, net investment gain was \$3,112,090. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

Employer contributions were \$0 in fiscal year 2018 according to the Board of Water and Light – City of Lansing, Michigan's (the "BWL") actuarially determined contribution (ADC) as determined by the BWL's actuary.

Benefit payments in fiscal year decreased by \$1.1 million to \$6.4 million. This was due to a decrease in funds distributed in the form of lump-sum payouts upon retirement in fiscal year 2018 as compared to fiscal year 2017.

Investment Objectives and Asset Allocation

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

In consideration of the Plan's investment goals, demographics, time horizon available for investment, and the overall risk tolerance of the BWL, a long-term investment objective of income and growth has been adopted for the Plan's assets. The primary objectives of the Plan's assets are to fund all disbursements as they are due to meet the actuarial rate of return of 7 percent, and to earn returns in excess of a passive set of market indexes representative of the Plan's asset allocation.

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

U.S. Equities	35%
Non-U.S. Equities	20%
Global Fixed Income	40%
Commercial Real Estate	5%

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

Management's Discussion and Analysis (Continued)

Future Events

The Plan is currently overfunded, with a funded ratio (fiduciary net position divided by total pension liability) of 112 percent. This funding level results in an annual pension expense of \$0 for fiscal year 2018. The BWL does not expect to make contributions to the trust in fiscal year 2019.

The Plan expects to make annual withdrawals of approximately \$6,000,000 to cover participant benefits.

Contacting the Plan's Management

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

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

Statement of Plan Fiduciary Net Position

	As of June 30	
	2018	2017
Assets		
Investments at fair value:		
Cash and money market trust fund	\$ 1,890,701	\$ 1,088,909
U.S. government obligations	7,966,488	9,053,469
Fixed income securities	12,372,866	12,156,276
Mutual funds	26,341,508	22,381,599
Partnership	-	1,117,790
Common stocks	13,634,806	19,938,242
Total investments at fair value	62,206,369	65,736,285
Trade receivable - due from broker	11,853	46,051
Receivable - investment interest receivable	148,763	153,010
Total assets	62,366,985	65,935,346
Liabilities		
Trade payable - due to broker	-	11,533
Net Position Restricted for Pensions	\$ 62,366,985	\$ 65,923,813

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

Statement of Changes in Plan Fiduciary Net Position

	For the Year Ended June 30	
	2018	2017
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 1,521,207	\$ 6,553,152
Interest and dividend income	<u>1,590,883</u>	<u>1,718,523</u>
Total investment income	<u>3,112,090</u>	<u>8,271,675</u>
Deductions		
Retiree benefits paid	6,413,954	7,472,625
Administrative expenses	<u>254,964</u>	<u>317,072</u>
Total deductions	<u>6,668,918</u>	<u>7,789,697</u>
Net Increase (Decrease) in Net Position	(3,556,828)	481,978
Net Position Restricted for Pensions		
Beginning of year	<u>65,923,813</u>	<u>65,441,835</u>
End of year	<u>\$ 62,366,985</u>	<u>\$ 65,923,813</u>

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

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

Accounting and Reporting Principles

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

Basis of Accounting

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

Report Presentation

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

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

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

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)

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

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

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

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

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

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 - Plan Description

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

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

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

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

Note 2 - Plan Description (Continued)

Plan Membership – At February 28, 2018 and February 28, 2017 (the most recent actuarial valuation for funding purposes), 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><u>364</u></u>	<u><u>382</u></u>

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

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

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

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

Note 2 - Plan Description (Continued)

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

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the BWL Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. There was no contribution required for the years ended June 30, 2018 and 2017. Plan documents do not require participant contributions.

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

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

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

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

Note 3 - Cash, Investments, and Fair Disclosure

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

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, other than commercial paper, which can only be purchased with a 270-day maturity. The average maturities of investments are as follows as of June 30, 2018:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 7,966,488	12.19 Years
Fixed income securities	12,372,866	12.46 Years
Money market trust fund	1,890,701	Less than 1 year
Portfolio weighted average maturity	-	12.35 years

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

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

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 9,053,469	12.53 Years
Fixed income securities	12,156,276	12.83 Years
Money market trust fund	1,088,909	Less than 1 year
Portfolio weighted average maturity	-	12.70 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. The credit quality ratings of debt securities are as follows as of June 30, 2018:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations – implicitly guaranteed	\$ 2,767,597	AA+	S&P
U.S. government obligations – implicitly guaranteed	58,089	AA-	S&P
Fixed income securities	893,567	AAA	S&P
Fixed income securities	5,410,018	AA+	S&P
Fixed income securities	657,692	AA	S&P
Fixed income securities	147,017	AA-	S&P
Fixed income securities	302,057	A+	S&P
Fixed income securities	1,139,433	A	S&P
Fixed income securities	829,820	A-	S&P
Fixed income securities	1,616,048	BBB+	S&P
Fixed income securities	901,500	BBB	S&P
Fixed income securities	377,545	BBB-	S&P
Fixed income securities	8,030	BB+	S&P
Fixed income securities	90,140	B-	S&P
Money market trust funds	1,890,701	Not rated	Not rated

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

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

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations - implicitly guaranteed	\$ 3,138,615	AA+	S&P
U.S. government obligations - implicitly guaranteed	57,557	AA-	S&P
Fixed income securities	596,786	AAA	S&P
Fixed income securities	4,853,253	AA+	S&P
Fixed income securities	473,265	AA	S&P
Fixed income securities	438,373	AA-	S&P
Fixed income securities	284,823	A+	S&P
Fixed income securities	1,222,741	A	S&P
Fixed income securities	978,958	A-	S&P
Fixed income securities	1,884,579	BBB+	S&P
Fixed income securities	916,393	BBB	S&P
Fixed income securities	404,115	BBB-	S&P
Fixed income securities	8,170	BB+	S&P
Fixed income securities	94,820	CCC	S&P
Money market trust funds	1,088,909	Not rated	Not rated

Note 4 - 401(h) Account

Effective July 1, 1999, the Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component 401(h) account. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the plan sponsor. At June 30, 2018 and 2017, there were no excess pension plan assets available for transfer.

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

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

Note 5 - Tax Status

The Plan obtained, from the Internal Revenue Service, a determination letter dated November 4, 2011. The letter affirmed that the Plan complied with the requirements of Internal Revenue Code section 401(a). The plan continues to operate as a qualified plan.

Note 6 - Plan Investments - Policy and Rate of Return

Investment Policy – The Plan's policy in regard to the allocation of invested assets is established and may be amended by the BWL by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the BWL's adopted asset allocation policy as of June 30, 2018 and 2017:

<u>Asset Class</u>	<u>2018 Target Allocation</u>	<u>2017 Target Allocation</u>
Global Fixed Income	40%	35%
U.S. Equities	35%	35%
Non-U.S. Equities	20%	10%
Commercial real estate	5%	10%
Alternative Investments	0%	10%

Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 4.59 percent. For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 12.10 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

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

Note 7 - Net Pension Asset of the BWL

The components of the net pension asset of the BWL at June 30, 2018 and 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%

Actuarial Assumptions – The June 30, 2018 total pension liability was determined by an actuarial valuation as of February 28, 2018, which used updated procedures to roll forward the estimated liability to June 30, 2018. The June 30, 2017 total pension liability was determined by an actuarial valuation as of February 28, 2017, which used updated procedures to roll forward the estimated liability to June 30, 2017. The total pension liability is determined by the Plan's independent actuary and is that amount that results from applying actuarial assumptions to adjust the total pension liability to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Benassist Actuaries and Nyhart Actuary & Employee Benefits were the actuaries for the February 28, 2018 and February 28, 2017 valuations, respectively. The valuations used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50%

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

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

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

Note 7 - Net Pension Asset of the BWL (Continued)

The mortality table was based on the RP-2014 Total Dataset Mortality Table, Male and Female, adjusted to 2006 and projected generationally using the MP-2017 projection scale.

Discount Rate – The discount rate used to measure the total pension liability was 7.0 percent and 7.5 percent for June 30, 2018 and June 30, 2017, respectively. The projection of cash flows used to determine the discount rate in both years assumed that BWL contributions will be made at rates equal to the actuarially determined contribution rates.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2018 and 2017 for each major asset class included in the pension plan's target asset allocation, as disclosed in Note 6, are summarized in the following table:

Asset Class	2018 Long-term Expected Real Rate of Return	2017 Long-term Expected Real Rate of Return
Fixed income	3.23%	2.54%
Domestic equity	7.89%	7.94%
International equity	8.73%	8.66%
Real estate	5.91%	5.88%

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

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

Note 7 - Net Pension Asset of the BWL (Continued)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate – The following presents the net pension asset of the BWL at June 30, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset) of the BWL (in thousands)	\$ (1,539)	\$ (6,616)	\$ (9,467)

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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset) of the BWL (in thousands)	\$ (4,900)	\$ (9,029)	\$ (12,879)

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

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

Note 8 – 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.

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

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

Note 8 – Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017:

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

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

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

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

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

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

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

Note 8 – Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2018 and 2017:

Investment Type	June 30, 2018			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ -	\$ 1,890,701	\$ -	\$ 1,890,701
U.S. government obligations	-	7,966,488	-	7,966,488
Fixed income securities	-	12,372,866	-	12,372,866
Mutual funds	-	26,341,508	-	26,341,508
Common stocks	<u>13,634,806</u>	<u>-</u>	<u>-</u>	<u>13,634,806</u>
Total	<u>\$ 13,634,806</u>	<u>\$ 48,571,563</u>	<u>\$ -</u>	<u>\$ 62,206,369</u>

Investment Type	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Cash and money market trust fund	\$ -	\$ 1,088,909	\$ -	\$ 1,088,909
U.S. government obligations	-	9,053,469	-	9,053,469
Fixed income securities	-	12,156,276	-	12,156,276
Mutual funds	-	22,381,599	-	22,381,599
Partnership	-	-	1,117,790	1,117,790
Common stocks	<u>19,938,242</u>	<u>-</u>	<u>-</u>	<u>19,938,242</u>
Total	<u>\$ 19,938,242</u>	<u>\$ 44,680,253</u>	<u>\$ 1,117,790</u>	<u>\$ 65,736,285</u>

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

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

Note 9 – Risks and Uncertainties

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

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

Note 10 – 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

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

**Required Supplemental Information (Unaudited)
Schedule of Changes in the BWL's
Net Pension Asset and Related Ratios
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 2008 - 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
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%	- %

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

Note to Required Supplementary Information (Unaudited) Year Ended June 30, 2018

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 method
Amortization method	Level dollar over a 15-year period
Remaining amortization period	15 years
Asset valuation method	Market value of the assets
Inflation	3.0 percent
Salary increases	3.5 percent per year
Investment rate of return	7.0 percent per year compounded annually
Mortality	RP-2014 Mortality Table with MP-2017 Improvement Scale

Changes to assumptions: The mortality projection scale was updated to MP-2017 Projection Scale. The assumed form of payment for active participants was changed from life annuity to a 100% joint and survivor annuity. The discount rate and the expected long term rate of return on assets was decreased from 7.50% to 7.00%.

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

**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	4.59%	12.10%	(0.49%)	1.55%	19.18%	- %	- %	- %	- %	- %

*GASB 67 was implemented as of June 30, 2014. Information from 2008 - 2013 is not available and this schedule will be presented on a prospective basis