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

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Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan") as of June 30, 2006 and 2005 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for pension benefits of the Plan at June 30, 2006 and 2005 and the changes in net assets held in trust for pension benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Governmental Accounting Standards Board (GASB), Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments, requires a management's discussion and analysis be presented along with the financial statements. This information has not been presented.

The required supplemental information, analysis of funding progress and employer contributions on pages 13-14, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. This supplemental information is the responsibility of the Plan's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit such information, and we do not express an opinion on it.

Plante & Moran, PLLC

August 28, 2006

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

Statement of Plan Net Assets

	June 30	
	2006	2005
Assets		
Receivable - Investment interest receivable	$ 656,394	$ 818,361
Investments at fair value:		
Money Market Collective Trust Fund	2,666,800	1,890,954
U.S. government obligations	19,051	46,042
Corporate bonds and notes	33,476,140	38,779,661
Common stocks	84,300,618	78,398,925
Limited partnership	-	80,905
Total investments	120,462,609	119,196,487
Net Assets	**$ 121,119,003**	**$ 120,014,848**

See Notes to Financial Statements.

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

Statement of Changes in Plan Net Assets

	Year Ended June 30	
	2006	2005
Increases - Investment income:		
Appreciation (depreciation) in fair value of investments:		
Bonds	$ (2,028,689)	$ 458,100
Stocks	8,714,311	1,988,624
Other	368,433	(15,606)
Total	7,054,055	2,431,118
Interest and dividend income	4,995,307	5,149,091
Total increases - Net of depreciation in fair value of investments	12,049,362	7,580,209
Decreases		
Benefits payments	9,731,595	9,073,945
Retirees' health premiums (Note 5)	1,213,612	5,219,258
Total decreases	10,945,207	14,293,203
Net Increases (Decreases)	1,104,155	(6,712,994)
Net Assets		
Beginning of year	120,014,848	126,727,842
End of year	**$ 121,119,003**	**$ 120,014,848**

See Notes to Financial Statements.

Note 1 - The Plan

The Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan"), a component unit of the Board of Water and Light - City of Lansing, Michigan (the BWL), is a single-employer, noncontributory, defined benefit, public employee retirement system established and administered by the BWL under Section 5-203 of the City Charter. An employee becomes a participant of the Plan when hired. A participant's interest shall be fully vested when the participant has been credited with seven years of vesting service. The Plan was established in 1939 and has been amended several times, with the latest amendment taking effect on January 1, 2002.

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.

The Plan provides for an annual benefit upon normal retirement 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.

The plan membership consists of the following as of the date of the most recent actuarial valuation for each year presented:

	2006	2005
Retirees and beneficiaries currently receiving benefits	505	513
Terminated employees with vested benefits	21	22
Current employees	64	71
Total participants	590	606

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plan and Note Disclosures for Defined Contribution Plans*.

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 prices. Investments that do not have an established market are reported at estimated fair value.

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

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

The Plan is authorized by Michigan Public Act 55 of 1982 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.

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 which have been netted with interest and dividend income.

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.

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.

Funding Policy - The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. During the fiscal years ended June 30, 2006 and 2005, there was not an actuarial required contribution.

Note 2 - Summary of Significant Accounting Policies (Continued)

Vesting - Participants vest at the rate of 20 percent per year after the completion of three years of service. Participants become fully vested at the completion of seven years of service.

Note 3 - Cash, Investments, and Fair Disclosure

During the year ended June 30, 2005, the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

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. The 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; 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.

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.

The Plan's deposits and investment policies are in accordance with statutory authority.

Risks at June 30, 2006

Custodial Credit Risk of Bank Deposits - At the end of the year, the Plan has no bank deposits.

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.

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

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

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond	$ 19,051	15 years
Sweep account	2,666,800	Less than one year
Corporate bonds	33,476,140	12.44 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 year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Sweep account	$ 2,666,800	Not Rated	Not Rated
Corporate bonds	3,791,990	A+	S & P
Corporate bonds	10,164,783	A	S & P
Corporate bonds	2,649,270	A-	S & P
Corporate bonds	2,992,035	AA-	S & P
Corporate bonds	1,303,634	AAA	S & P
Corporate bonds	1,531,363	BB+	S & P
Corporate bonds	3,091,010	BB	S & P
Corporate bonds	3,027,242	BBB+	S & P
Corporate bonds	3,918,464	BBB	S & P
Corporate bonds	1,006,350	BBB-	S & P

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

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

Foreign Currency Risk - The Plan holds no investments in foreign entities, currency, or debt.

Risks at June 30, 2005

Custodial Credit Risk of Bank Deposits - At the end of the year, the Plan has no bank deposits.

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

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

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond	$ 46,337	12.04 years
Sweep account	1,898,521	Less than one year
Corporate bonds	39,530,100	14.5 years

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

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

Investment	Fair Value	Rating	Rating Organization
Sweep account	$ 1,898,521	Not Rated	Not Rated
Corporate bonds	8,904,516	A1	Moody's
Corporate bonds	2,407,106	A2	Moody's
Corporate bonds	5,944,784	A3	Moody's
Corporate bonds	2,347,147	AA1	Moody's
Corporate bonds	1,131,369	AA2	Moody's
Corporate bonds	4,402,823	AA3	Moody's
Corporate bonds	1,375,187	AAA	Moody's
Corporate bonds	1,072,253	BA1	Moody's
Corporate bonds	3,951,011	BA3	Moody's
Corporate bonds	5,787,413	BAA2	Moody's
Corporate bonds	2,206,491	BAA3	Moody's

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

Foreign Currency Risk - The Plan holds no investments in foreign entities, currency, or debt.

Note 4 - Realized Gains (Losses) on Investments

Realized gains (losses) on investment sales for the years ended June 30 were as follows:

	2006	2005
Bonds	$ (355,456)	$ 127,123
Stocks	6,982,989	(1,178,492)
Total	$ 6,627,533	$ (1,051,369)

Note 4 - Realized Gains (Losses) on Investments (Continued)

Realized gains (losses) on investments are calculated based on the historical cost of the asset. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of Plan investments. Unrealized gains (losses) on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year.

Note 5 - 401(h) Account

Effective July 1, 1999, the Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component 401(h) account. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the plan sponsor. At June 30, 2006 and 2005, the amount of excess pension plan assets available for transfer totaled $1,213,612 and $12,096,494, respectively; however, such transfers are limited to the total amount of retiree health care costs incurred during the year. During the years ended June 30, 2006 and 2005, the Plan transferred $1,213,612 and $5,219,258, respectively, to the 401(h) account, of which all such funds were utilized for retiree health care costs incurred during the Plan year. Accordingly, at June 30, 2006 and 2005, there were no funds remaining in the 401(h) account.

Note 6 - Tax Status

The Plan obtained its determination letter dated March 14, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Required Supplemental Information

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

Schedule of Funding Progress
(in thousands)

Valuation Date	Actuarial Asset Value	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
02/29/96	$ 166,758	$ 146,858	$ (19,900)	114	$ 34,123	(58.3)
02/28/97	178,927	157,472	(21,455)	114	34,730	(61.8)
02/28/98	118,511	94,710	(23,801)	125	7,224	(329.5)
02/28/99	128,552	93,781	(34,771)	137	7,035	(494.3)
02/29/00	136,723	90,267	(46,456)	151	6,282	(739.5)
02/28/01	142,569	94,519	(48,050)	151	6,285	(764.5)
02/28/02	143,158	91,726	(51,432)	156	5,624	(914.5)
02/28/03	137,123	91,015	(46,108)	151	5,268	(875.2)
02/29/04	136,898	89,612	(47,286)	153	4,787	(987.8)
02/28/05	128,891	86,560	(42,331)	149	4,142	(1,022.0)
02/28/06	125,630	86,906	(38,724)	145	3,942	(982.3)

AAL - Actuarial Accrued Liability (Projected Unit Credit Accrued Liability)
UAAL - Unfunded Actuarial Accrued Liability and negative UAAL indicates a funding excess

See Note to Required Supplemental Information.

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

Schedule of Employer Contributions (in thousands)

Fiscal Year Ended	Employer Contributions Required	Employer Contributions Actual	Percentage of ARC Contributed
06/30/97	$ 2,464	$ 2,464	100
06/30/98	1,189	1,189	100
06/30/99	-	-	N/A
06/30/00	-	-	N/A
06/30/01	-	-	N/A
06/30/02	-	-	N/A
06/30/03	-	-	N/A
06/30/04	-	-	N/A
06/30/05	-	-	N/A
06/30/06	-	-	N/A

ARC - Annual required contribution

See Note to Required Supplemental Information.

Note - Required Supplemental Information

The required supplemental information on pages 12 and 13 is designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due. This information was used to compile the latest actuarial valuation.

Valuation date	February 28, 2006
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar over a 15-year period
Asset valuation method	Smoothed Market Value
Actuarial assumptions:	
Investment rate of return	7.5% per year compounded annually
Projected salary increases	5.0% - 11.0% per year, depending on age
Postretirement - Cost-of-living adjustments	Ad-hoc; none explicitly assumed in liability computations