Lansing Board of Water and Light
Retiree Benefit Plan and Trust

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Independent Auditor's Report

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 trust net assets of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the Plan), as of June 30, 2006 and 2005, and the related statement of changes in trust 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 assets available for benefits of the Plan, as of June 30, 2006 and 2005, and the changes in trust net assets 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 Statement - and Management's Discussion and Analysis - For State and Local Governments*, requires a Management Discussion and Analysis be presented along with the financial statements. This information has not been presented.

Plante & Moran, PLLC

August 28, 2006

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Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Statement of Trust Net Assets

	June 30	
	2006	2005
Assets		
Investments - Fair value:		
Corporate bonds and notes:		
GTE Corp., bond, 8.75%, maturing November 1, 2021	$ 1,163,830	$ 1,314,860
Union Carbide Corp., bond, 7.875%, maturing April 1, 2023	521,075	564,905
Mellon Capital bond, 7.720%, maturing December 1, 2026	1,044,460	1,073,990
JP Morgan Cap TR II bond, 7.95%, maturing February 1, 2027	2,096,880	2,172,780
Citicorp Capital bond, 8.015%, maturing February 15, 2027	1,050,360	1,086,310
Citicorp Capital bond, 7.933%, maturing February 15, 2027	1,049,490	1,084,680
Verizon Global bond, 7.75%, maturing December 1, 2030	1,078,550	1,291,250
Northern States Power Co., bond, 6.5%, maturing March 1, 2028	673,267	-
Burlington Resources, bond, 7.375%, maturing March 1, 2029	855,405	-
GE Global Insurance, bond, 7.75%, maturing June 15, 2030	1,134,900	1,165,830
CHUBBS Corp., bond, 6.8%, maturing November 15, 2031	1,038,200	-
CitiGroup Inc., bond, 6.625%, maturing June 15, 2032	984,231	-
CitiGroup Inc., bond, 6.0%, maturing October 31, 2033	947,340	-
AMBAC Finl Group Inc., bond, 5.95%, maturing December 05, 2035	928,210	-
Preferred foreign stock:		
AEGON NV Stock, PFD, 6.875%,	550,000	-
Mutual funds:		
Evergreen Equity Index Fund	8,700,920	8,043,571
Ishares MSCI EAFE Index Fund	4,303,511	1,991,084
Ishares Russell Midcap Index Fund	3,376,852	2,081,041
Ishares TR-Russell 2000 Index Fund	5,993,261	1,961,809
Ishares TR-Russell 1000 Index Fund	4,139,854	-
Comerica money market collective trust fund	1,995,539	7,353,563
Total investments at fair value	43,626,135	31,185,673
Investment interest and dividend receivable	238,634	175,031
Trust Net Assets	**$ 43,864,769**	**$ 31,360,704**

See Notes to Financial Statements.

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Statement of Changes in Trust Net Assets

	Year Ended June 30	
	2006	2005
Additions:		
Contributions	$ 10,216,312	$ 7,219,258
Investment income:		
Appreciation (depreciation) in fair value of investments:		
Corporate bonds and notes	(1,022,355)	337,655
Mutual funds	2,089,427	1,050,603
Total appreciation in fair value of investments	1,067,072	1,388,258
Interest and dividend income	1,220,681	894,149
Total investment income	2,287,753	2,282,407
Net Increase in Trust Net Assets	12,504,065	9,501,665
Net Assets		
Beginning of year	31,360,704	21,859,039
End of year	**$ 43,864,769**	**$ 31,360,704**

See Notes to Financial Statements.

Note 1 - Description of the Plan

The following description of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the Plan), a component unit of the Board of Water and Light - City of Lansing, Michigan (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 employees beneficiary association" (VEBA) under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended.

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 member of the Lansing Board of Water and Light Board of Commissioners is a Trustee during the term of office as a Commissioner. The Trustees have appointed Comerica Bank and Wachovia Securities Incorporated as custodians of the Plan assets.

Contributions - The Lansing Board of Water and Light (BWL) makes 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. No employee contributions are allowed under this Plan.

Participation - Participation in this Plan is determined in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light.

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.

Note 1 - Description of the Plan (Continued)

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 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Plan statements are prepared using the accrual basis of accounting.

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.

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, which are netted with investment 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.

Note 3 - Cash, Investments, and Fair Disclosure

During the year ended June 30, 2005, the Lansing Board of Water and Light Retiree Benefit Plan and Trust 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 mature 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.

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

Risks at June 30, 2006

Custodial Credit Risk of Bank Deposits

At the end of the year the Plan has no bank deposits.

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

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
Mutual funds	$ 28,509,937	Less than 1 year
Corporate bonds	14,566,198	22.50 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
Mutual funds	$ 28,509,937	Not Rated	Not Rated
Corporate bonds	1,044,460	Not Rated	Not Rated
Corporate bonds	1,931,571	A+	S & P
Corporate bonds	5,380,430	A	S & P
Corporate bonds	4,760,452	A-	S & P
Corporate bonds	928,210	AA	S & P
Corporate bonds	521,075	BBB-	S & P

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

Concentration of Credit Risk

The BWL places no limit on the amount the Plan may invest in any one issuer.

Foreign Currency Risk

At year end, the Plan was not subject to foreign currency risk.

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
Mutual funds	$ 21,438,838	Less than 1 year
Corporate bonds	9,921,866	21.55 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
Mutual funds	$ 21,438,838	Not Rated	Not Rated
Corporate bonds	1,073,990	Not Rated	S&P
Corporate bonds	2,606,110	A+	S&P
Corporate bonds	4,343,770	A-	S&P
Corporate bonds	1,165,830	BBB+	S&P
Corporate bonds	564,905	BBB-	S&P

Concentration of Credit Risk

The BWL places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan's investment in the corporate bond, JP Morgan Cap TR II, in the amount of $2,172,780, exceeds five percent of the Plan's total investments.

Foreign Currency Risk

The Plan holds no investments in foreign entities, currency, or debt.

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. Therefore, no provision for income taxes has been included in the Plan's financial statements.