

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2010

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
WAYNE COUNTY, INDIANA



**FILED**  
05/23/2011



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager and CEO	Steve Saum	01-01-10 to 12-31-11
Mayor	Sarah L. Hutton	01-01-08 to 12-31-11
President of the Common Council	J. Clayton Miller Diana Pappin	01-01-10 to 12-31-10 01-01-11 to 12-31-11
Finance Manager	Sandra Lambert	01-01-10 to 12-31-11
City Controller	Tammy S. Glenn	01-01-10 to 12-31-11
Chairperson of the Board of Directors	Bing Welch Bruce Wissel	01-01-10 to 12-31-10 01-01-11 to 12-31-11



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE RICHMOND POWER AND  
LIGHT, CITY OF RICHMOND, WAYNE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of Richmond Power and Light, a department of the City of Richmond, as of and for the year ended December 31, 2010, which collectively comprise the Utility's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over reporting. 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 audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of Richmond Power and Light, City of Richmond, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Richmond as of December 31, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for Richmond Power and Light, as of December 31, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

The Utility has not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 21, 2011

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
STATEMENT OF NET ASSETS  
December 31, 2010

Assets

Current assets - unrestricted:	
Cash and cash equivalents	\$ 5,149,001
Accounts receivable (net of allowance)	5,800,379
Inventories	10,801,285
Prepaid items	<u>323,740</u>
Total current assets - unrestricted	<u>22,074,405</u>
Current assets - restricted:	
Restricted cash, cash equivalents and investments:	
Depreciation cash and investments	11,206,348
Group insurance reserve cash and investments	1,332,846
Cash reserve fund cash and investments	2,139,709
Debt reserve fund cash and investments	750,476
Customer deposits cash and investments	<u>533,786</u>
Total current assets - restricted:	<u>15,963,165</u>
Deferred charges	<u>317,501</u>
Capital assets:	
Land, improvements to land and construction in progress	6,153,652
Other capital assets (net of accumulated depreciation)	<u>71,058,756</u>
Total capital assets	<u>77,212,408</u>
Total noncurrent assets	<u>77,529,909</u>
Total assets	<u>115,567,479</u>

Liabilities

Current liabilities:	
Accounts payable	6,035,423
Taxes payable	459,536
Accrued interest payable	68,052
Deferred credits	44,779
Current liabilities payable from restricted assets:	
Customer deposits	524,636
Revenue bonds payable	680,000
Payable in lieu of taxes	<u>3,209,563</u>
Total current liabilities	<u>11,021,989</u>
Noncurrent liabilities:	
Bonds payable (net of unamortized discounts and deferred amount on refunding)	4,830,000
Compensated absences	<u>615,000</u>
Total noncurrent liabilities	<u>5,445,000</u>
Total liabilities	<u>16,466,989</u>

Net Assets

Invested in capital assets, net of related debt	71,702,880
Restricted for debt service	682,424
Unrestricted	<u>26,715,186</u>
Total net assets	<u>\$ 99,100,490</u>

The notes to the financial statements are an integral part of this statement.

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS  
As Of And For The Year Ended December 31, 2010

Operating revenues:	
Residential sales	\$ 18,629,533
Commercial and industrial sales	49,544,541
Sales for resale	15,945,374
Public street and highway lighting	1,157,781
Penalties	481,497
Other	<u>245,746</u>
 Total operating revenues	 <u>86,004,472</u>
Operating expenses:	
Power production	12,188,166
Purchased power	51,967,542
Cost of service	422,316
Transmission and distribution	3,289,318
Customer accounts	1,385,125
Administration and general	6,578,482
Depreciation and amortization	4,936,178
Other	1,783,095
Employee pensions and benefits	<u>607,131</u>
 Total operating expenses	 <u>83,157,353</u>
 Operating income	 <u>2,847,119</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	81,216
Miscellaneous revenue	35,927
Interest expense	<u>(212,829)</u>
 Total nonoperating revenues (expenses)	 <u>(95,686)</u>
 Income before contributions and transfers	 2,751,433
 Capital contributions	 <u>17,872</u>
 Change in net assets	 2,769,305
Total net assets - beginning	97,693,102
Residual equity transfer out	<u>(1,361,917)</u>
 Total net assets - ending	 <u>\$ 99,100,490</u>

The notes to the financial statements are an integral part of this statement.

RICHMOND POWER AND LIGHT  
 CITY OF RICHMOND  
 STATEMENT OF CASH FLOWS  
 ENTERPRISE FUNDS  
 As Of And For The Year Ended December 31, 2010

Cash flows from operating activities:	
Receipts from customers and users	\$ 75,394,794
Payments to suppliers and contractors	(56,610,517)
Payments to employees	<u>(11,798,866)</u>
Net cash provided by operating activities	<u>6,985,411</u>
Cash flows from capital and related financing activities:	
Capital contributions	17,872
Acquisition and construction of capital assets	(3,014,692)
Principal paid on capital debt	(655,000)
Interest paid on capital debt	<u>(215,907)</u>
Net cash used by capital and related financing activities	<u>(3,867,727)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	24,003,709
Purchase of investments	(23,014,000)
Interest received	<u>33,637</u>
Net cash provided by investing activities	<u>1,023,346</u>
Net increase in cash and cash equivalents	4,141,030
Cash and cash equivalents, January 1	<u>4,889,135</u>
Cash and cash equivalents, December 31	<u>\$ 9,030,165</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,847,119
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	4,936,178
(Increase) decrease in assets:	
Accounts receivable	478,918
Interfund services provided or used	201,099
Deferred charges	(11,313)
Inventories	63,783
Prepaid items	(30,752)
Increase (decrease) in liabilities:	
Accounts payable	(1,528,425)
Deferred credits	2,502
Taxes payable	(28,567)
Compensated absence payable	13,000
Customer deposits	<u>41,869</u>
Total adjustments	<u>4,138,292</u>
Net cash provided by operating activities	<u>\$ 6,985,411</u>

The notes to the financial statements are an integral part of this statement.

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utility and are not intended to present fairly the position of the City of Richmond (City), and the results of its operations and cash flows of its enterprise funds. The Utility, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utility has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

State statute (IC 5-13-9) authorizes the Utility to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because they are set aside for cost of Utility Plant in Service, medical costs of employees and dependents and an annual payment to the City of Richmond.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	None	Straight-Line	40-50 years
Improvements other than buildings	None	Straight-Line	50-65 years
Machinery and equipment	None	Straight-Line	10-60 years
Transportation equipment	None	Straight-Line	5-10 years

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 15 days per year. Unused sick leave may be accumulated to a maximum of 105 days. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated for 1 year. Accumulated vacation leave is paid to employees through cash payments upon separation of service.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

No liability is reported for sick and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

<u>2010</u>	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 787,489	\$ 1,021	\$ -	\$ 788,510
Construction in progress	<u>9,685,338</u>	<u>1,030,127</u>	<u>5,350,323</u>	<u>5,365,142</u>
Total capital assets, not being depreciated	<u>10,472,827</u>	<u>1,031,148</u>	<u>5,350,323</u>	<u>6,153,652</u>
Capital assets, being depreciated:				
Buildings	6,570,655	50,843	-	6,621,498
Improvements other than buildings	980,452	140	-	980,592
Machinery and equipment	<u>157,701,578</u>	<u>7,040,859</u>	<u>1,482,583</u>	<u>163,259,854</u>
Totals	<u>165,252,685</u>	<u>7,091,842</u>	<u>1,482,583</u>	<u>170,861,944</u>
Less accumulated depreciation for:				
Buildings	(4,140,022)	(133,725)	-	(4,273,747)
Improvements other than buildings	(464,001)	(17,012)	-	(481,013)
Machinery and equipment	<u>(90,743,187)</u>	<u>(4,753,441)</u>	<u>(448,200)</u>	<u>(95,048,428)</u>
Totals	<u>(95,347,210)</u>	<u>(4,904,178)</u>	<u>(448,200)</u>	<u>(99,803,188)</u>
Total capital assets, being depreciated, net	<u>69,905,475</u>	<u>2,187,664</u>	<u>1,034,383</u>	<u>71,058,756</u>
Total capital assets, net	<u>\$ 80,378,302</u>	<u>\$ 3,218,812</u>	<u>\$ 6,384,706</u>	<u>\$ 77,212,408</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2010</u>	
	<u>Expended to December 31</u>	<u>Committed</u>
Parallax	\$ 56,281	\$ 20,690
Transmission	1,870,544	214,456
Distribution	3,283,407	516,593
General plant	<u>154,910</u>	<u>94,540</u>
Totals	<u>\$ 5,365,142</u>	<u>\$ 846,279</u>

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Construction of electric substation	3.33%-4.03%	\$ 2,155,000
Fabric filter system	3.64%	3,355,000
Total		<u>\$ 5,510,000</u>

Revenue bonds debt service requirements to maturity are as follows:

	Electric Utility	
	Principal	Interest
2011	\$ 680,000	\$ 191,860
2012	710,000	166,609
2013	740,000	140,028
2014	775,000	111,950
2015-2018	<u>2,605,000</u>	<u>167,881</u>
Totals	<u>\$ 5,510,000</u>	<u>\$ 778,328</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 6,165,000	\$ -	\$ 655,000	\$ 5,510,000	\$ 680,000
Compensated absences	602,000	13,000	-	615,000	-
Total long-term liabilities	<u>\$ 6,767,000</u>	<u>\$ 13,000</u>	<u>\$ 655,000</u>	<u>\$ 6,125,000</u>	<u>\$ 680,000</u>

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Other Information

A. Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The Utility has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per insured and aggregate claims in excess of \$2,468,827 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. Rate Structure

The current rate structure was approved by the Indiana Utility Regulatory Commission on February 9, 2005.

C. Pension Plan

Single-Employer Defined Benefit Pension Plan

Pension Plan

Plan Description

The Utility contributes to the Richmond Power and Light Employees' Pension, which is a single-employer defined benefit plan. With the approval of the Utility's fiscal body, the plan is administered by the Principal Financial Group as authorized by state statute (Indiana Code 8-1.5-3-7) for full-time Utility employees. The plan provides dependent pensions, life insurance, and disability benefits to plan members and beneficiaries. The trustee issues a publicly available financial

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

report that includes financial statements and required supplementary information of the plan. The report may be obtained by writing Richmond Power and Light, 2000 South U.S. Highway 27, Richmond, IN 47374.

Funding Policy and Annual Pension Cost

The contribution requirements for plan members for the Richmond Power and Light Employees' Pension Plan are established by the Board of Directors of the Utility. The Utility's annual pension cost for the current year and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	Richmond Power and Light Employees' Pension
Annual required contribution	\$ 836,240
Interest on net pension obligation	(48,629)
Adjustment to annual required contribution	<u>72,517</u>
Annual pension cost	860,128
Contributions made	<u>655,785</u>
Increase in net pension obligation	204,343
Net pension obligation, beginning of year	<u>(720,425)</u>
Net pension obligation, end of year	<u>\$ (516,082)</u>
Contribution rates:	
Richmond Power and Light Plan members	8.24% 3%
Actuarial valuation date	08-31-10
Actuarial cost method	Entry age
Amortization method	normal-frozen initial liability equal equal annual Installments
Amortization period	16 years
Asset valuation method	Contract basis

RICHMOND POWER AND LIGHT  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions	Richmond Power and Light Employees' Pension
Investment rate of return	6.75%
Projected future salary increases:	
Total	7.00%
Attributed to inflation	2.00%
Attributed to merit/seniority	5.00%
Cost-of-living adjustments	2.00%

Three Year Trend Information				
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Richmond Power and Light Employees' Pension	08-31-08	\$ 501,131	126%	\$ (624,499)
	08-31-09	567,482	117%	(720,425)
	08-31-10	860,128	76%	(516,082)

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of August 31, 2010, the most recent actuarial valuation date is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Funding Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Funding Excess as a Percentage of Covered Payroll ((b-a)/c)
Richmond Power and Light Employees' Pension	<u>\$ 39,913,129</u>	<u>\$ 42,071,610</u>	<u>\$ 2,158,481</u>	94.87%	<u>\$ 7,959,201</u>	27.12%

The schedule of funding progress, presented as RSI for the above plans following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

IV. Telecommunication Department of Richmond Power and Light

On February 23, 2001, Richmond Power and Light loaned \$2,700,000 to its newly created telecommunication department to commence operations. The department was formed to provide high-speed telecommunication services to Wayne County. The department maintains separate accounting

RICHMOND POWER AND LIGHT  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

records for its operations in accordance with requirements of the Indiana Utility Regulatory Commission to demonstrate that the Utility does not subsidize the operation of the telecommunication department.

On April 18, 2001, Richmond Power and Light's telecommunication department acquired the assets and customer accounts of a local area internet service provider and started providing internet service under the name Parallax Systems.

The financial position, results of operations and changes in cash flows of the telecommunication department are included in the financial statements of Richmond Power and Light as of and for the year ended December 31, 2010. Interdepartmental transactions between Richmond Power and Light and its telecommunication department are eliminated for financial statement purposes.

The following are excerpts from Richmond Power and Light's telecommunication department as of and for the year ended December 31, 2010:

Operating revenues	\$ 1,080,861
Operating expenses	996,447
Net income from operations	84,414
Depreciation and amortization	119,344
Total assets	1,856,366
Total liabilities	3,249,306

V. Contingent Liability

Richmond Power and Light is attempting to resolve a "Notice of Violation and Finding of Violation" received from the United States Environmental Protection Agency (EPA) in connection with certain provisions of the Clean Air Act. The amount of liability, if any, is unknown at this time.

VI. Subsequent Event – Energy From Waste Project

Richmond Power & Light (RP&L) is pursuing a project that would transform the Whitewater Valley coal fired electric generation plant to a municipal solid waste (MSW) gasification electric generation plant. The process will replace coal with municipal solid waste as the fuel used in the process of generating electricity. The new process will lower emissions to levels below EPA requirements, allow RP&L to generate renewable electricity on a continuous basis and help RP&L keep the generation station open, preserving 33 jobs and potentially adding 10-15 more.

The process of constructing the new plant requires the formation of a private/public partnership between RP&L and a private investor. The new for-profit entity will be formed to process the MSW, sell the electricity and share the profits with RP&L. The existing generation assets of RP&L, including Unit two turbine (66 MW), baghouse, cooling towers and all associated support equipment, will be transferred to the new entity. The value of these assets will be determined by three independent appraisers. The new plant will be fully financed by the private investor, constructed by a contractor chosen by the investor, but operated by RP&L employees.

RICHMOND POWER AND LIGHT  
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(Continued)

The cost of the project will be in the \$125 million range. It will be financed by a combination of debt equity, tax exempt grants and renewable energy loans; all obtained by the financial partner. In turn, a lease agreement between RP&L and the financial partner will be defined to split the after cost profits. The RP&L employees who will operate the plant will be contracted to the new entity, thus shifting all labor and overhead expense of these employees to the new entity. All risk will be assumed by the financial partner, with RP&L retaining all existing assets if the project fails. It is anticipated that an initial 20 year term will be defined by the lease agreement.

The proposed schedule will allow the lease agreement to be executed 2<sup>nd</sup> quarter 2011, construction to begin late 4<sup>th</sup> quarter 2011, completed in 2012. The existing RP&L operations will continue through 2012, with the asset transfer being completed early 2013. Full operation of the new generation station is anticipated 2<sup>nd</sup> quarter 2013.

RP&L is anticipating a financial shift of its net income from being dependent on the volatility of the energy market to constant revenue based on a Purchase Power Agreement (PPA) with a new entity who needs renewable energy to meet its renewable energy portfolio. The new MSW process will eliminate the cost of fuel and transfer labor costs from RP&L. The new entity will get paid for fuel and will assume the cost of operating the new facility. Projected revenue for RP&L is still dependent on the PPA and fuel revenues, but indications provide a positive revenue stream for RP&L.

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Richmond Power and Light Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
09-01-03	\$ 18,327,234	\$ 17,342,907	\$ 984,327	106%	\$ 6,396,220	15%
09-01-04	20,164,043	19,163,700	1,000,343	105%	6,940,368	14%
09-01-05	21,582,567	21,240,996	341,571	102%	7,331,350	5%
09-01-06	23,155,870	22,395,506	760,364	103%	7,280,811	10%
09-01-07	25,356,539	23,832,967	1,523,572	106%	7,182,171	21%
09-01-08	39,361,410	38,264,551	1,096,859	103%	7,631,460	14%
09-01-09	39,477,633	40,776,537	(1,298,904)	97%	8,255,070	(16%)
09-01-10	39,913,129	42,071,610	(2,158,481)	95%	7,959,201	(27%)

RICHMOND POWER AND LIGHT  
CITY OF RICHMOND  
EXIT CONFERENCE

The contents of this report were discussed on April 21, 2011, with Steve Saum, General Manager and CEO; Sandra Lambert, Finance Manager; Tammy S. Glenn, City Controller; Bruce Wissel, Chairperson of the Board of Directors; and Randall Baker, Corporate Service Director. Our audit disclosed no material items that warrant comment at this time.