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STATE BOARD OF ACCOUNTS
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INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

RICHMOND POWER AND LIGHT

CITY OF RICHMOND

WAYNE COUNTY, INDIANA

FILED

08/01/2007

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OFFICIALS

Office	Official	Term
Controller	John Kenny	01-01-06 to 12-31-06
	Tammy Glenn	01-01-07 to 12-31-07
Mayor	Sarah Hutton	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	John Kenny	01-01-06 to 03-02-07
	Vicki A. Robinson	03-03-07 to 12-31-07
President of the Common Council	Karl Sharp	01-01-06 to 12-31-06
	Diana Pappin	01-01-07 to 12-31-07
Finance Manager	Tracy Garrett	01-01-06 to 02-05-07
	Scott Sharp (Interim)	02-06-07 to 04-12-07
	Sandra Morris	04-13-07 to 12-31-07
General Manager	David Osburn	01-01-06 to 01-10-07
	Steve Saum (Interim)	01-11-07 to 12-31-07
Chairperson of the Board of Directors	Larry Parker	01-01-06 to 12-31-07

STATE OF INDIANA

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF 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 (Utility), a department of the City of Richmond, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion 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 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, 2006, 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 the Utility, as of December 31, 2006, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management’s Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Management’s Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 14, 2007

MANAGEMENT DISCUSSION AND **ANALYSIS**

Fiscal Year Ended December 31, 2006

The following is a discussion and analysis of Richmond Power and Light's 2006 financial performance. It is intended to provide the reader with understanding of the various sections of the financial reports, key factors affecting them, and of key activities of the utility's operations. It should be noted that this analysis is-solely for the finances and performance of Richmond Power and Light, not the City of Richmond. The City of Richmond and Richmond Power and Light maintain separate financial records and reports. Richmond Power and Light is a municipal electric utility subject to the jurisdiction of the Indiana Utility Regulatory Commission for rates and charges, and follows the Federal Energy Regulatory Commission's Uniform System of Accounts.

It should also be noted that for the purposes of the audit, the financial statements of RP&L and its telecommunications division, Parallax Systems, are consolidated. For operational and regulatory considerations, these financial reports of these two operations are maintained separate.

FINANCIAL HIGHLIGHTS

- Operating Income for the year was a positive $8.2 million. After accounting for non-operational expenses and the transfer to the City, the net change in assets was a positive $7.6 million.
- Total Assets finished higher in 2006 at $103.5 million. The major contributor to the increase was Construction Work In Progress (CWIP), due mainly to the two substations constructed during 2006.
- The biggest changes in Noncurrent Assets were in Depreciation Reserve as it increased by $.7 million and the Cash Reserve, with $47,000 interest from the issued bonds.
- The financial reports were greatly affected by two major changes in 2006. The first was the implementation of the final stage of the approved rate increase, which noticeably increased revenues. The second change was a result of changing the operating procedure of the generators at the Whitewater Generating Station. The new operating procedures allow the operation of the generators when the market is favorable to running at a more profitable time, thus eliminating running the generation at a loss.

DESCRIPTION OF ASSETS

RP&L maintains its assets in three major categories; Current, Noncurrent, and Capital. Current Assets include items such as cash, inventory, and receivables. This is typically for assets that are more liquid and can be converted into cash within 1 year. This category also includes a Note Receivable as well. Current Assets for 2006 ended the year at $20.6 million.

Noncurrent Assets are those funds that are being held for future use and normally not used for operational expenses. The largest of these funds is the Depreciation Reserve Fund, which is used to fund large capital improvement projects as directed by the Board. The Board designated target for this fund is $10,000,000. Due to the continued capital improvement project at the Whitewater Valley Station, and the construction of two substations, this fund is currently below that target. As funds become available, management will increase the balance of this fund towards the desired target.

RP&L maintains an Insurance Reserve Fund, which is to be used for extraordinary insurance related expenses. The RP&L Board recently passed a resolution that sets a higher target for funding of this fund at $1,000,000. As funds become available, management will increase the balance of this fund towards the desired target.

The other significant fund in the Noncurrent Assets category is Cash Reserve. This fund is used to accumulate and hold the monies that will be transferred to the City of Richmond's General Fund. This is for RP&L's annual contribution to the City. Indiana Code requires that these funds be in place six months prior to the transfer. The current transfer is set at $2,139,708. The Common Council acting as the RP&L Board of Directors sets this amount annually.

Capital Assets include Utility Plant in Service, Construction Work in Progress (CWIP), and Property Held for Future Use. The values of these assets are adjusted for depreciation and amortization. By reviewing these assets, you can see that it is increasing as construction work is being done. Once the construction is complete and the equipment is deemed in service, CWIP will be reduced.

DESCRIPTION OF LIABILITIES

RP&L's main liability categories are Current and Noncurrent. There was one change in these accounts outside of normal fluctuations. Accounts Payable decreased by $2.6 million over 2005. The new operating procedures for the generators have allowed for a more efficient operation, resulting in less payment to IMPA for unscheduled purchased power, and less expense for fuel.

As of December 31,2006, Richmond Power and Light does carry some long-term debt, bonds amounting to $3.3 million were issued to pay for some major T&D construction projects and major equipment replacement. The first payment on these bonds is due in March 2007.

The balances of the Liabilities come in the form of Net Assets and other adjustments. Two significant adjustments for 2006 come from the below the line portion of the transfer to the City ($1,361,916) and Operating Income. Since RP&L posted a profit in 2006, Operating Income was added to Net Assets.

PROGRAM REVENUES

There are two major categories of revenues in the consolidated report, electric and telecommunications. Electric revenues are by far the majority of sales. Electric revenues were $84,558,603 and telecommunications were $790,699. The consolidated revenues for RP&L were approximately $86 million.

The revenues by major classes are as follows:

Revenue Class	Revenue
Residential Electric	$16,627,501
Commercial Electric	$11,633,842
Industrial Electric	$36,060,283
Municipal/Public	$1,995,408
Misc. Electric	$1,431,334
Sales for Resale (IMPA)	$18,241,570
Telecommunications	$790,939
Total	**$86,780,877**

As shown on the above chart, sales to the industrial sector comprise the largest amount of revenues. When viewed as a percent of retail electric sales, industrial sales increase to 54% of total sales.

PROGRAM EXPENSES

Total consolidated operating expenses for 2006 amounted to $79.1 million, or $7.7 million less than revenues. The most significant expenses are Purchased Power, Fuel, Depreciation, Employee Pension and Benefits, and Taxes. These five categories account for $72.1 million or 92.8% of total expenses. Purchased Power is the single largest expense at $44.8 million.

RP&L purchases its power under a total requirements contract with the Indiana Municipal Power Agency (IMPA), of which Richmond Power and Light is a member. Under the Power Sales Agreement, RP&L must purchase its entire requirements from the Agency. The output of RP&L's Whitewater Valley Station is dedicated to IMPA and is compensated under the terms of the Capacity Purchase Agreement

The program expenses by major function are:

Expense Category	2006 Expense
Purchased Power	$44,795,316
Production	$16,563,215
Transmission & Distribution	$2,808,626
Customer Accounts	$1,120,379
Administration & General	$3,626,908
Depreciation & Amortization	$4,787,998
Employee Pensions & Benefits	$1,688,689
Other	$3,756,592
Total	**$79,147,723**

NET ASSETS

The following is a consolidated statement of Net Assets for the utility.

Assets

Current assets:	$20,633,504
Total restricted assets:	$10,563,489
Fixed assets and deferred charges:	$72,267,400
Total assets:	$103,464,393

Liabilities

Current liabilities:	$9,815,976
Long Term Liabilities:	$3,390,000
Total Liabilities:	$13,205,976

Total net assets:	$90,258,417

The resulting affect on Net Assets, after including Non Operating revenues and expenses and the transfer to the City of Richmond, was a positive $7.66 million. The resulting Net Assets as of 12/31/2006 were $90.3 million. Again, the main contributor to this increase was the CWIP of the two substations. RP&L has undertaken two important steps to continue this trend and rebuild reserves. These two steps have already been discussed, but to reiterate, a general increase in retail rates was implemented in 2005/2006, which will generate additional revenue and a change was negotiated to the IMPA Capacity Payments Agreement with IMPA that should sharply reduce production expenses and improve profitability of the generating station.

RP&L makes an annual transfer to the General Fund of the City of Richmond. For 2006, this amounted to $2,139,708, of which $777,792 is included in operating expenses as Payment in Lieu of Taxes. The remaining balance is treated as a "below the line" transfer. The Indiana Utility Regulatory Commission only allows that portion that is considered PILT to be included in rates.

FACTORS AFFECTING EXPENSES, AND RATES

In 2005, RP&L received approval from the Indiana Utility Regulatory Commission to increase its rates and charges. The overall increase was 6.5%, the first phase was implemented in April 2005, and the final phase in January of 2006. Additional revenue has been seen due to this rate increase. Rates will continue to be monitored to provide the most reliable and economical service for our customers.

Other external factors are also having the effect of increasing costs and rates. Environmental compliance requirements scheduled for implementation in 2010 will require the installation of additional NO x and S02 controls at the generating station. The cost of these installations will be determined, with various methods of payment investigated. Another cost element that is driving up rates is fuel. RP&L's primary fuel for generation is coal, and the price of coal has increased dramatically over the past several years. However, a new coal contract has been signed by RP&L to keep costs as low as possible for the next three years. With the increase in fuel costs and the implementation of environmental compliance measures, the production costs of RP&L have increased. The new Capacity Payment Agreement with IMPA to change the production schedule and payment method starting April 2006 is still being monitored, but appears to be providing some relief to rising purchased power costs. This new method should result in improved profitability and lower rates for consumers. This will continue to be evaluated through the end of 2006 to determine its effectiveness.

REQUESTS FOR INFORMATION

This report is intended to provide a general overview of Richmond Power and Light's finances. Any questions concerning the information provided in this report or requests for additional information should be addressed to the Finance Manager, Richmond Power and Light, P.O. Box 908, Richmond, Indiana 47374.

RICHMOND POWER AND LIGHT
CITY OF RICHMOND
STATEMENT OF NET ASSETS
December 31, 2006

Assets	
Current assets:	
Cash and cash equivalents	$ 7,045,366
Accounts receivable (net of allowance)	6,236,653
Loan to City of Richmond	792,153
Inventories	6,231,441
Prepaid items	327,891
Total current assets	20,633,504
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Depreciation cash and investments	6,471,965
Bond and interest cash and investments	482,219
Group insurance cash and investments	111,971
Cash reserve fund cash and investments	2,852,945
Customer deposits	388,242
Interest receivable	256,147
Total restricted assets	10,563,489
Deferred charges	310,033
Capital assets:	
Land, improvements to land and construction in progress	8,688,992
Other capital assets (net of accumulated depreciation)	63,268,375
Total capital assets	71,957,367
Total noncurrent assets	82,830,889
Total assets	103,464,393
Liabilities	
Current liabilities:	
Accounts payable	5,450,134
Taxes payable	421,940
Deferred credits	40,683
Matured unpaid bonds and coupons	2,625
Current liabilities payable from restricted assets:	
Customer deposits	388,242
Revenue bonds payable	260,000
Payable to city in lieu of taxes	3,252,352
Total current liabilities	9,815,976
Noncurrent liabilities:	
Revenue bonds payable	3,040,000
Compensated absences	350,000
Total noncurrent liabilities	3,390,000
Total liabilities	13,205,976
Net Assets	
Invested in capital assets, net of related debt	68,657,367
Restricted for debt service	482,219
Unrestricted	21,118,831
Total net assets	$ 90,258,417

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, 2006

Operating revenues:	
Residential sales	$ 17,418,440
Commercial and industrial sales	47,694,125
Sales for resale	18,241,570
Public street and highway lighting	1,995,408
Penalties	484,978
Other	79,336
Total operating revenues	85,913,857
Operating expenses:	
Power production	61,358,531
Transmission and distribution	2,808,626
Customer accounts	1,120,379
Administration and general	3,626,908
Depreciation and amortization	4,787,998
Other	2,325,207
Employee pensions and benefits	1,688,689
Total operating expenses	77,716,338
Operating income	8,197,519
Nonoperating revenues (expenses):	
Interest and investment revenue	760,572
Miscellaneous revenue	106,448
Interest expense	(69,469)
Total nonoperating revenues	797,551
Income before contributions and transfers	8,995,070
Capital contributions	25,987
Transfers out to City of Richmond	(1,361,916)
Change in net assets	7,659,141
Total net assets - beginning	82,599,276
Total net assets - ending	$ 90,258,417

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

RICHMOND POWER AND LIGHT
CITY OF RICHMOND
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2006

Cash flows from operating activities:	
Receipts from customers and users	$ 85,377,586
Payments to suppliers and contractors	(66,492,831)
Payments to employees	(7,735,730)
Net cash provided by operating activities	11,149,025
Cash flows from noncapital financing activities:	
Principal repayment from City on loan	1,707,847
Transfers from other funds	(1,361,916)
Net cash provided by noncapital financing activities	345,931
Cash flows from capital and related financing activities:	
Proceeds from capital debt	3,300,000
Capital contributions	25,987
Acquisition and construction of capital assets	(9,636,550)
Interest paid on capital debt	(69,469)
Rental and other income from assets	106,448
Net cash used by capital and related financing activities	(6,273,584)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	8,625,194
Purchase of investments	(9,687,675)
Interest received	663,988
Net cash used by investing activities	(398,493)
Net increase in cash and cash equivalents	4,822,879
Cash and cash equivalents, January 1	2,552,154
Cash and cash equivalents, December 31	$ 7,375,033
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 8,197,519
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	4,787,998
(Increase) decrease in assets:	
Accounts receivable	(604,161)
Inventories	1,083,264
Prepaid items	44,871
Deferred charges	11,549
Increase (decrease) in liabilities:	
Accounts payable	(2,390,903)
Deferred credits	(66)
Taxes payable	22,613
Compensated absences	(60,000)
Customer deposits	56,341
Total adjustments	2,951,506
Net cash provided by operating activities	$ 11,149,025
Noncash investing, capital and financing activities:	
Capital assets of $132,986 were disposed in 2006	$ 132,986
Construction in progress of $1,242,283 was completed during 2006 and added to capital assets	1,242,283

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

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 Other 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.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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

   Depreciation, Bond and Interest, Group Insurance, Cash Reserve and Customer Deposit funds are classified as restricted assets on the statement of net assets balance sheet because they are set aside specifically for cost of Utility Plant in Service, medical costs of employees and dependents, annual payment to the City of Richmond, and for the liability of customer deposits.

4. Capital Assets

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

   Capital assets are reported at actual historical 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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

   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. Accumulated sick leave is not paid to employees.

   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 Indiana Code 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.

B. Receivables

The following receivable accounts have timing and credit characteristics different from typical accounts receivable. The Loan to the City of Richmond was for the purchase of the Carpenter Bus Manufacturing Plant building and property. The City intends to repay the loan to the Utility, but the building was sold for less than the loan amount. Repayment of the remaining loan balance of $801,099 will take more than one year, but a repayment schedule has not been established.

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 783,189	$ 7	$ -	$ 783,196
Construction in progress	1,242,283	8,891,335	2,227,822	7,905,796
Total capital assets, not being depreciated	2,025,472	8,891,342	2,227,822	8,688,992
Capital assets, being depreciated:				
Buildings	6,545,293	14,205	-	6,559,498
Improvements other than buildings	977,563	-	-	977,563
Machinery and equipment	136,086,572	2,970,561	144,722	138,912,411
Totals	143,609,428	2,984,766	144,722	146,449,472

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	3,606,201	133,190	-	3,739,391
Improvements other than buildings	396,094	16,967	-	413,061
Machinery and equipment	74,588,967	4,572,663	132,985	79,028,645
Totals	78,591,262	4,722,820	132,985	83,181,097
Total capital assets, being depreciated, net	65,018,166	(1,738,054)	11,737	63,268,375
Total capital assets, net	$ 67,043,638	$ 7,153,288	$ 2,239,559	$ 71,957,367

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Tranmission	$ 6,765,000	$ 6,503,047	$ 261,953	$ -
Distribution	1,251,500	1,247,849	3,651	-
General plant	711,000	154,900	556,100	-
Totals	$ 8,727,500	$ 7,905,796	$ 821,704	$ -

E. 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	3.3%	$ 3,300,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2007	$ 260,000	$ 117,005
2008	280,000	107,930
2009	295,000	98,081
2010	310,000	87,506
2011	320,000	76,290
2012-2016	1,835,000	186,159
Totals	$ 3,300,000	$ 672,970

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	$ -	$ 3,300,000	$ -	$ 3,300,000	$ 260,000
Compensated absences	410,000	-	60,000	350,000	-
Total long-term liabilities	$ 410,000	$ 3,300,000	$ 60,000	$ 3,650,000	$ -

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Depreciation	$ 6,471,965
Bond and interest	482,219
Group insurance	111,971
Cash reserve	2,852,945
Customer deposits	388,242
Interest receivable	256,147
Total restricted assets	$ 10,563,489

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 an aggregate of $850,000 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

Richmond Power and Light Employees' Pension

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 (IC 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 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 Plan
Annual required contribution	$ 624,214
Interest on net pension obligation	(33,994)
Adjustment to annual required contribution	47,816
Annual pension cost	638,036
Contributions made	599,150
Increase in net pension obligation	38,886
Net pension obligation, beginning of year	(503,610)
Net pension obligation, end of year	$ (464,724)

Contribution rates:	
Utility	5.67%
Plan members	3%
Actuarial valuation date	09-01-06
Actuarial cost method	Entry age
Amortization method	Normal-frozen initial liability equal annual installments
Amortization period	19 years
Asset valuation method	Contract basis

Actuarial Assumptions

Investment rate of return	6.75%
Projected future salary increases:	
Total	7%
Attributed to inflation	2%
Attributed to merit/seniority	5%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Richmond Power and Light Pension Plan	08-31-04	$ 483,563	130%	$ (450,773)
	08-31-05	638,036	110%	(503,610)
	08-31-06	584,527	94%	(464,724)

RICHMOND POWER AND LIGHT
CITY OF RICHMOND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE 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 AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
09-01-01	$ 14,103,332	$ 13,949,434	$ 153,898	101%	$ 6,013,332	3%
09-01-02	18,451,814	17,390,368	1,061,446	106%	6,436,400	16%
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%
09-09-06	23,155,870	22,395,506	760,364	103%	7,280,811	10%

RICHMOND POWER AND LIGHT
CITY OF RICHMOND
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2007, with Steve Saum, Interim General Manager; Larry Parker, Chairperson of the Board of Directors; Sandra Morris, Finance Manager; Scott Sharp, Accounting Supervisor; Al Glover, Board member; Karl Sharp, Board member; and Tammy Glenn, Controller. Our audit disclosed no material items that warrant comment at this time.