

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

ANNUAL FINANCIAL REPORT

2008

RICHMOND POWER AND LIGHT
CITY OF RICHMOND
WAYNE COUNTY, INDIANA



FILED
08/06/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report	3
Statement of Net Assets	4-5
Statement of Revenues, Expenses, and Changes in Fund Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8-15
Supplementary Information: Schedule of Funding Progress	16
Exit Conference	17

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Tammy S. Glenn	01-01-08 to 12-31-09
Mayor	Sarah L. Hutton	01-01-04 to 12-31-11
President of the Common Council	Larry Parker Bruce Wissel	01-01-08 to 12-31-08 01-01-09 to 12-31-09
Finance Manager	Sandra Morris	01-01-08 to 12-31-09
General Manager and CEO	Steve Saum	01-01-08 to 12-31-09
Chairperson of the Board of Directors	Bing Welch Phil Quinn	01-01-08 to 12-31-08 01-01-09 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 (Utility), a department of the City of Richmond, as of and for the year ended December 31, 2008. 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, 2008, 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 Electric Utility, as of December 31, 2008, 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 Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

May 28, 2009

RICHMOND POWER AND LIGHT
STATEMENT OF NET ASSETS
December 31, 2008

Assets

Current assets:	
Cash and cash equivalents	\$ 7,634,034
Interest receivable	2,291
Accounts receivable (net of allowance)	5,695,689
Interfund receivables:	
Interfund loans	401,099
Inventories	7,504,336
Prepaid items	<u>320,624</u>
Total current assets	<u>21,558,073</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Depreciation cash and investments	11,725,000
Group insurance reserve cash and investments	1,321,000
Cash reserve cash and investments	2,139,709
Debt reserve cash and investments	967,619
Customer deposits cash and investments	466,432
Interest receivable	<u>97,052</u>
Total restricted assets	<u>16,716,812</u>
Deferred charges and intangible assets (net of accumulated amortization)	<u>266,912</u>
Capital assets:	
Land, improvements to land and construction in progress	15,925,154
Other capital assets (net of accumulated depreciation)	<u>64,807,692</u>
Total capital assets	<u>80,732,846</u>
Total noncurrent assets	<u>97,716,570</u>
Total assets	<u>119,274,643</u>

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

RICHMOND POWER AND LIGHT
STATEMENT OF NET ASSETS
December 31, 2008
(Continued)

Liabilities

Current liabilities:	
Accounts payable	9,336,882
Taxes payable	446,458
Accrued interest payable	82,928
Deferred credits	41,619
Current liabilities payable from restricted assets:	
Customer deposits	455,268
Payable in lieu of taxes	<u>3,209,563</u>
Total current liabilities	<u>13,572,718</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	6,760,000
Compensated absences	<u>595,000</u>
Total noncurrent liabilities	<u>7,355,000</u>
Total liabilities	<u>20,927,718</u>

Net Assets

Invested in capital assets, net of related debt	73,972,846
Restricted for debt service	884,691
Unrestricted	<u>23,489,388</u>
Total net assets	<u>\$ 98,346,925</u>

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

RICHMOND POWER AND LIGHT
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

Operating revenues:	
Residential sales	\$ 18,113,861
Commercial and industrial sales	48,025,535
Sales for resale	24,704,945
Public street and highway lighting	1,958,686
Penalties	547,305
Other	<u>247,628</u>
 Total operating revenues	 <u>93,597,960</u>
 Operating expenses:	
Power production	70,710,836
Transmission and distribution	3,668,127
Customer accounts	1,335,099
Administration and general	3,772,254
Depreciation and amortization	4,439,756
Other	2,382,242
Employee pensions and benefits	<u>2,880,437</u>
 Total operating expenses	 <u>89,188,751</u>
 Operating income	 <u>4,409,209</u>
 Nonoperating revenues (expenses):	
Interest and investment revenue	692,236
Miscellaneous revenue	297,997
Interest expense	<u>(247,053)</u>
 Total nonoperating revenues (expenses)	 <u>743,180</u>
 Income before contributions and transfers	 5,152,389
 Capital contributions	 <u>2,973</u>
 Change in net assets	 5,155,362
Total net assets - beginning	94,510,691
Residual equity transfer out	<u>(1,319,128)</u>
 Total net assets - ending	 <u><u>\$ 98,346,925</u></u>

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

RICHMOND POWER AND LIGHT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

Cash flows from operating activities:	
Receipts from customers and users	\$ 72,497,575
Payments to suppliers and contractors for goods and services	(51,944,514)
Payments to employees including employee benefits	<u>(11,790,149)</u>
Net cash provided by operating activities	<u>8,762,912</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	4,000,000
Capital contributions	2,973
Acquisition and construction of capital assets	(11,478,758)
Principal paid on capital debt	(280,000)
Interest paid on capital debt	<u>(162,530)</u>
Net cash used by capital and related financing activities	<u>(7,918,315)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	12,881,995
Purchase of investments	(16,365,708)
Interest received	<u>714,735</u>
Net cash used by investing activities	<u>(2,768,978)</u>
Net increase in cash and cash equivalents	(1,924,381)
Cash and cash equivalents, January 1	<u>9,812,465</u>
Cash and cash equivalents, December 31	<u>\$ 7,888,084</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 4,409,209</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	4,439,756
(Increase) decrease in assets:	
Accounts receivable	(41,687)
Interfund services provided or used	186,588
Deferred charges	(33,348)
Inventories	(1,710,972)
Prepaid items	63,744
Increase (decrease) in liabilities:	
Accounts payable	1,195,316
Deferred credits	591
Taxes payable	27,289
In lieu of taxes payable	(42,788)
Compensated absence payable	245,000
Customer deposits	<u>24,214</u>
Total adjustments	<u>4,353,703</u>
Net cash provided by operating activities	<u>\$ 8,762,912</u>
Noncash investing, capital and financing activities:	
Construction and Utility Plant additions in accounts payable	<u>\$ 2,592,205</u>

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

ELECTRIC UTILITY
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.

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.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in enterprise fund financial 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.

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.

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	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.

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 \$401,099 will take more than one year, but a repayment schedule has not been established.

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 783,199	\$ 1,106	\$ -	\$ 784,305
Construction in progress	<u>6,308,356</u>	<u>12,370,458</u>	<u>3,537,965</u>	<u>15,140,849</u>
Total capital assets, not being depreciated	<u>7,091,555</u>	<u>12,371,564</u>	<u>3,537,965</u>	<u>15,925,154</u>
Capital assets, being depreciated:				
Buildings	6,559,498	8,999	-	6,568,497
Improvements other than buildings	977,563	-	-	977,563
Machinery and equipment	<u>145,194,159</u>	<u>3,982,464</u>	<u>978,190</u>	<u>148,198,433</u>
Totals	<u>152,731,220</u>	<u>3,991,463</u>	<u>978,190</u>	<u>155,744,493</u>
Less accumulated depreciation for:				
Buildings	3,872,865	133,473	-	4,006,338
Improvements other than buildings	430,029	16,968	-	446,997
Machinery and equipment	<u>83,446,392</u>	<u>4,307,642</u>	<u>1,270,568</u>	<u>86,483,466</u>
Totals	<u>87,749,286</u>	<u>4,458,083</u>	<u>1,270,568</u>	<u>90,936,801</u>
Total capital assets, being depreciated, net	<u>64,981,934</u>	<u>(466,620)</u>	<u>(292,378)</u>	<u>64,807,692</u>
Total capital assets, net	<u>\$ 72,073,489</u>	<u>\$ 11,904,944</u>	<u>\$ 3,245,587</u>	<u>\$ 80,732,846</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed	Required Future Funding
Generating Plant	\$ 8,315,000	\$ 6,938,157	\$ 1,376,843	\$ -
Transmission	4,709,364	4,698,999	10,365	-
Distribution	6,030,000	2,956,771	3,073,229	-
General Plant	<u>875,751</u>	<u>546,922</u>	<u>328,829</u>	-
Totals	<u>\$ 19,930,115</u>	<u>\$ 15,140,849</u>	<u>\$ 4,789,266</u>	<u>\$ -</u>

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	3.33% - 4.03%	\$ 2,760,000
Fabric Filter System	3.64%	<u>4,000,000</u>
Total		<u>\$ 6,760,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2009	\$ 595,000	\$ 238,221
2010	655,000	215,906
2011	680,000	191,860
2012	710,000	166,609
2013	740,000	140,027
2014-2018	<u>3,380,000</u>	<u>279,832</u>
Totals	<u>\$ 6,760,000</u>	<u>\$ 1,232,455</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 3,040,000	\$ 4,000,000	\$ 280,000	\$ 6,760,000	\$ 595,000
Compensated absences	<u>350,000</u>	<u>245,000</u>	<u>-</u>	<u>595,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,390,000</u>	<u>\$ 4,245,000</u>	<u>\$ 280,000</u>	<u>\$ 7,355,000</u>	<u>\$ 595,000</u>

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Assets

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

Depreciation	\$ 11,725,000
Group insurance reserve	1,321,000
Cash reserve	2,139,709
Debt reserve	967,619
Customer deposits	466,432
Interest receivable	<u>97,052</u>
 Total restricted assets	 <u><u>\$ 16,716,812</u></u>

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 \$1,881,233 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.

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. 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 (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	\$	484,807
Interest on net pension obligation		(33,230)
Adjustment to annual required contribution		49,554
Annual pension cost		501,131
Contributions made		633,328
Decrease in net pension obligation		(132,197)
Net pension obligation, beginning of year		(492,302)
Net pension obligation, end of year	\$	(624,499)

ELECTRIC UTILITY
CITY OF RICHMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Richmond Power and Light Employees' Pension
Contribution rates:	
Utility	9.71%
Plan members	3%
Actuarial valuation date	09-01-08
Actuarial cost method	Entry age
Amortization method	Normal-frozen initial liability equal annual installments
Amortization period	20 years
Asset valuation method	Contract basis
	Richmond Power and Light Employees' Pension Plan
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	08-31-06	\$ 584,527	94%	\$ (464,724)
	08-31-07	501,131	105%	(492,302)
	08-31-08	567,482	126%	(624,499)

RICHMOND POWER AND LIGHT
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 (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess 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%

RICHMOND POWER AND LIGHT
CITY OF RICHMOND
EXIT CONFERENCE

The contents of this report were discussed on May 28, 2009, with Steve Saum, General Manager and CEO; Sandra Morris, Finance Manager; Randall Baker, Corporate Services Director; Scott Sharp, Accounting Supervisor; Tammy S. Glenn, Controller; and Philip Quinn, Chairperson of the Board of Directors. Our audit disclosed no material items that warrant comment at this time.