

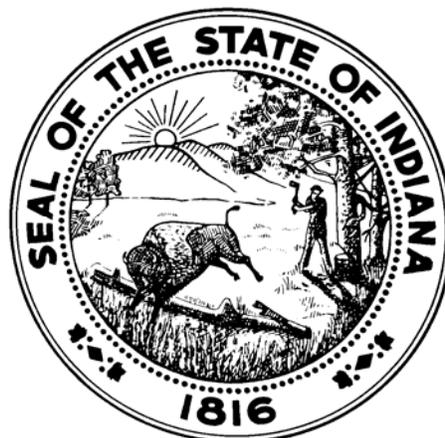
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2005

CITY OF PERU

MIAMI COUNTY, INDIANA



**FILED**  
08/17/2006



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jackquan Gray	01-01-04 to 12-31-07
Mayor	James Walker	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	James Walker	01-01-04 to 12-31-07
President of the Common Council	James Walker	01-01-04 to 12-31-07
General Manager of the Utilities	Roger Merriman	01-01-05 to 12-31-06
Superintendent of Water Utility	Mike Dahlquist	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Mike Dahlquist	01-01-05 to 12-31-06
Superintendent of Electric Utility Transmission and Distribution	Gary Jackson Curt Bankston (Interim) Joseph Wallace	01-01-05 to 08-05-05 08-06-05 to 03-12-06 03-13-06 to 12-31-06
Superintendent of Electric Utility Power Plant	Jeffrey Jernberg	01-01-05 to 12-31-06
Utility Office Manager	Leah Aikman	01-01-05 to 12-31-06



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF PERU, MIAMI COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Peru (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinions.

As discussed in Note I, the City prepares the financial statements of its governmental activities, each major governmental fund and the aggregate remaining fund information of the City, on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City prepares its financial statements for its business-type activities on the accrual basis of accounting in accordance 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 cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In our opinion, the financial statements of the business-type activities present fairly, in all material respects, the financial position of each business-type activity as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 2, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by 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.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the table of contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 2, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF PERU, MIAMI COUNTY, INDIANA

We have audited the financial statements of the City of Peru (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated August 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 2, 2006

CITY OF PERU  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2005

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 2,764,126	\$ 965,926	\$ -	\$ (1,798,200)	\$ -	\$ (1,798,200)
Public safety	3,444,603	58,859	-	(3,385,744)	-	(3,385,744)
Highways and streets	586,586	-	-	(586,586)	-	(586,586)
Sanitation	831,397	-	-	(831,397)	-	(831,397)
Economic development	1,335,219	-	-	(1,335,219)	-	(1,335,219)
Culture and recreation	492,228	229,319	-	(262,909)	-	(262,909)
Debt service	235,047	-	-	(235,047)	-	(235,047)
Capital outlay	2,283,607	-	-	(2,283,607)	-	(2,283,607)
Total governmental activities	11,972,813	1,254,104	-	(10,718,709)	-	(10,718,709)
Business-type activities:						
Water	1,962,689	2,100,304	27,786	-	165,401	165,401
Wastewater	3,384,880	3,746,375	39,933	-	401,428	401,428
Electric	14,680,805	15,745,195	21,339	-	1,085,729	1,085,729
Total business-type activities	20,028,374	21,591,874	89,058	-	1,652,558	1,652,558
Total primary government	\$ 32,001,187	\$ 22,845,978	\$ 89,058	(10,718,709)	1,652,558	(9,066,151)
General receipts:						
Property taxes				4,211,687	-	4,211,687
Other local sources				48,682	-	48,682
Grants and contributions not restricted to specific programs				4,246,057	-	4,246,057
Unrestricted investment earnings				82,143	304,114	386,257
Transfers				440,812	(440,812)	-
Total general receipts and transfers				9,029,381	(136,698)	8,892,683
Change in net assets				(1,689,328)	1,515,860	(173,468)
Net assets - beginning				4,826,842	10,515,354	15,342,196
Net assets - ending				\$ 3,137,514	\$ 12,031,214	\$ 15,168,728
<b>Assets</b>						
Cash and investments				\$ 184,178	\$ 1,531,839	\$ 1,716,017
Cash with fiscal agent				1,897	554,489	556,386
Restricted assets:						
Cash and investments				2,951,439	9,944,886	12,896,325
Total assets				\$ 3,137,514	\$ 12,031,214	\$ 15,168,728
<b>Net Assets</b>						
Restricted for:						
Public safety				\$ 266,874	\$ -	\$ 266,874
Highways and streets				279,007	-	279,007
Culture and recreation				208,927	-	208,927
Economic development				1,061,255	-	1,061,255
Debt service				72,465	1,818,400	1,890,865
Capital outlay				945,872	7,436,112	8,381,984
Other purposes				118,936	1,244,863	1,363,799
Unrestricted				184,178	1,531,839	1,716,017
Total net assets				\$ 3,137,514	\$ 12,031,214	\$ 15,168,728

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

CITY OF PERU  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2005

	General	Economic Development Income Tax	Other Governmental Funds	Totals
<b>Receipts:</b>				
Taxes	\$ 3,683,346	\$ -	\$ 538,822	\$ 4,222,168
Licenses and permits	18,484	-	1,592	20,076
Intergovernmental	1,509,159	426,944	1,083,547	3,019,650
Charges for services	106,025	-	1,085,054	1,191,079
Fines and forfeits	41,029	-	1,920	42,949
Other	151,934	911,421	283,396	1,346,751
	<u>5,509,977</u>	<u>1,338,365</u>	<u>2,994,331</u>	<u>9,842,673</u>
<b>Total receipts</b>				
<b>Disbursements:</b>				
General government	2,562,507	-	201,619	2,764,126
Public safety	3,103,030	-	341,573	3,444,603
Highways and streets	-	-	586,586	586,586
Sanitation	831,397	-	-	831,397
Culture and recreation	-	-	492,228	492,228
Urban redevelopment	-	1,335,219	-	1,335,219
<b>Debt service:</b>				
Principal	-	-	189,505	189,505
Interest	-	-	45,542	45,542
<b>Capital outlay:</b>				
Highways and streets	5,050	-	2,278,557	2,283,607
	<u>6,501,984</u>	<u>1,335,219</u>	<u>4,135,610</u>	<u>11,972,813</u>
<b>Total disbursements</b>				
Excess (deficiency) of revenue over (under) disbursements	<u>(992,007)</u>	<u>3,146</u>	<u>(1,141,279)</u>	<u>(2,130,140)</u>
<b>Other financing sources:</b>				
Transfers in	440,812	-	-	440,812
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>				
	(551,195)	3,146	(1,141,279)	(1,689,328)
Cash and investment fund balance - beginning	737,270	1,058,109	3,031,463	4,826,842
Cash and investment fund balance - ending	<u>\$ 186,075</u>	<u>\$ 1,061,255</u>	<u>\$ 1,890,184</u>	<u>\$ 3,137,514</u>
<b><u>Cash and Investment Assets - December 31</u></b>				
Cash and investments	\$ 184,178	\$ -	\$ -	\$ 184,178
Cash with fiscal agent	1,897	-	-	1,897
<b>Restricted assets:</b>				
Cash and investments	-	1,061,255	1,890,184	2,951,439
Total cash and investment assets - December 31	<u>\$ 186,075</u>	<u>\$ 1,061,255</u>	<u>\$ 1,890,184</u>	<u>\$ 3,137,514</u>
<b><u>Cash and Investment Fund Balance - December 31</u></b>				
<b>Restricted for:</b>				
Public safety	\$ -	\$ -	\$ 266,874	\$ 266,874
Highway and streets	-	-	279,007	279,007
Culture and recreation	-	-	208,927	208,927
Economic development	-	1,061,255	-	1,061,255
Debt service	-	-	72,465	72,465
Capital outlay	-	-	945,872	945,872
Other purposes	1,897	-	117,039	118,936
Unrestricted	184,178	-	-	184,178
Total cash and investment fund balance - December 31	<u>\$ 186,075</u>	<u>\$ 1,061,255</u>	<u>\$ 1,890,184</u>	<u>\$ 3,137,514</u>

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

CITY OF PERU  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2005

	Business-Type Activities			Total
	Water Utility	Wastewater Utility	Electric Utility	
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 248,846	\$ 547,832	\$ 735,161	\$ 1,531,839
Cash with fiscal agent	-	554,489	-	554,489
Accounts receivable (net of allowance)	166,343	279,329	749,514	1,195,186
Inventories	104,722	-	373,587	478,309
Prepaid items	27,289	32,006	81,455	140,750
Other current assets	-	-	369	369
<b>Total current assets</b>	<b>547,200</b>	<b>1,413,656</b>	<b>1,940,086</b>	<b>3,900,942</b>
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Customer deposits	35,865	32,580	131,760	200,205
Revenue bond covenant accounts	1,141,968	5,044,861	3,067,683	9,254,512
Other	-	161,048	329,121	490,169
<b>Total restricted assets</b>	<b>1,177,833</b>	<b>5,238,489</b>	<b>3,528,564</b>	<b>9,944,886</b>
Capital assets:				
Land, improvements to land and construction in progress	96,657	454,082	160,445	711,184
Other capital assets (net of accumulated depreciation)	13,126,846	29,226,868	16,709,234	59,062,948
<b>Total capital assets</b>	<b>13,223,503</b>	<b>29,680,950</b>	<b>16,869,679</b>	<b>59,774,132</b>
<b>Total noncurrent assets</b>	<b>14,401,336</b>	<b>34,919,439</b>	<b>20,398,243</b>	<b>69,719,018</b>
<b>Total assets</b>	<b>14,948,536</b>	<b>36,333,095</b>	<b>22,338,329</b>	<b>73,619,960</b>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	70,512	36,078	1,986,190	2,092,780
Accrued payroll payable	26,743	30,292	75,267	132,302
Taxes payable	6,802	-	46,328	53,130
Current liabilities payable from restricted assets:				
Retainage payable	-	554,489	-	554,489
Customer deposits	35,865	32,580	131,760	200,205
Loan payable	24,312	27,728	-	52,040
Accrued interest payable	105	26	-	131
<b>Total current liabilities</b>	<b>164,339</b>	<b>681,193</b>	<b>2,239,545</b>	<b>3,085,077</b>
Noncurrent liabilities:				
Loan payable	-	14,158,706	-	14,158,706
Compensated absences	27,534	26,121	85,233	138,888
<b>Total noncurrent liabilities</b>	<b>27,534</b>	<b>14,184,827</b>	<b>85,233</b>	<b>14,297,594</b>
<b>Total liabilities</b>	<b>191,873</b>	<b>14,866,020</b>	<b>2,324,778</b>	<b>17,382,671</b>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	13,199,191	15,494,516	16,869,679	45,563,386
Restricted for debt service	-	1,818,400	-	1,818,400
Restricted for other	1,177,833	3,259,041	3,199,443	7,636,317
Unrestricted	379,639	895,118	(55,571)	1,219,186
<b>Total net assets</b>	<b>\$ 14,756,663</b>	<b>\$ 21,467,075</b>	<b>\$ 20,013,551</b>	<b>\$ 56,237,289</b>

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

CITY OF PERU  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2005

	Enterprise Funds			
	Water Utility	Wastewater Utility	Electric Utility	Total
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,137,467	\$ -	\$ -	\$ 1,137,467
Commercial and industrial sales	648,515	-	-	648,515
Residential sales	-	-	6,524,855	6,524,855
Commercial and industrial sales	-	-	8,917,945	8,917,945
Public street and highway lighting	-	-	240,147	240,147
Fire protection revenue	190,155	-	-	190,155
Penalties	16,287	84,880	72,447	173,614
Flat rate revenues	-	109,924	-	109,924
Measured revenue:				
Residential	-	1,915,404	-	1,915,404
Commercial and industrial sales	-	1,598,912	-	1,598,912
Other	54,101	36,138	65,819	156,058
<b>Total operating revenues</b>	<b>2,046,525</b>	<b>3,745,258</b>	<b>15,821,213</b>	<b>21,612,996</b>
Operating expenses:				
Water treatment expense - operations and maintenance	372,064	-	-	372,064
Production and supply	-	-	2,466,254	2,466,254
Transmission and distribution	422,971	-	1,176,075	1,599,046
Collection system - operations and maintenance	-	279,900	-	279,900
Treatment and disposal expense - operations and maintenance	-	694,661	-	694,661
Customer accounts	72,789	71,258	185,364	329,411
Sales expense	2,142	1,884	5,702	9,728
Administration and general	714,480	690,304	2,202,856	3,607,640
Purchased water	-	-	8,441,371	8,441,371
Depreciation	274,549	399,456	1,383,255	2,057,260
<b>Total operating expenses</b>	<b>1,858,995</b>	<b>2,137,463</b>	<b>15,860,877</b>	<b>19,857,335</b>
<b>Operating income (loss)</b>	<b>187,530</b>	<b>1,607,795</b>	<b>(39,664)</b>	<b>1,755,661</b>
Nonoperating revenues (expenses):				
Interest and investment revenue	36,005	159,633	108,476	304,114
Miscellaneous revenue	4,958	11,352	22,950	39,260
Interest expense	(2,643)	(3,225)	-	(5,868)
<b>Total nonoperating revenue</b>	<b>38,320</b>	<b>167,760</b>	<b>131,426</b>	<b>337,506</b>
<b>Income before contributions and transfers</b>	<b>225,850</b>	<b>1,775,555</b>	<b>91,762</b>	<b>2,093,167</b>
Capital contributions	52,742	82,425	21,339	156,506
Transfers out	(59,734)	-	(381,078)	(440,812)
<b>Change in net assets</b>	<b>218,858</b>	<b>1,857,980</b>	<b>(267,977)</b>	<b>1,808,861</b>
<b>Total net assets - beginning</b>	<b>14,537,805</b>	<b>19,609,095</b>	<b>20,281,528</b>	<b>54,428,428</b>
<b>Total net assets - ending</b>	<b>\$ 14,756,663</b>	<b>\$ 21,467,075</b>	<b>\$ 20,013,551</b>	<b>\$ 56,237,289</b>

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

CITY OF PERU  
 RECONCILIATION OF THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES,  
 EXPENSES AND OTHER CHANGES IN FUND NET ASSETS OF THE PROPRIETARY FUNDS TO THE  
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
 For The Year Ended December 31, 2005

Net assets of business-type activities reported in the enterprise fund statement of net assets	\$	56,237,289
Amounts reported for net assets of business-type activities in the enterprise fund statements are different because		
Capital assets are reported as disbursements in the year of acquisition in the government-wide financial statements, but are capitalized and amortized over a period of years in the enterprise fund statements.		(59,774,132)
Long-term debt is reported as a cash receipt in the year the proceeds are obtained in the government-wide financial statements, but are reported as a liability and expensed over the life of the debt in the enterprise fund statements.		14,297,594
Short-term receivables and payables are reported as cash receipts or cash disbursements in the current year in the government-wide financial statements, but are accrued and reported in the period the benefit is derived or liability is incurred in the fund statements.		<u>1,270,463</u>
Net assets of business-type activities reported in the government-wide financial statements	\$	<u><u>12,031,214</u></u>

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

CITY OF PERU  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2005

	Enterprise Funds			
	Water Utility	Wastewater Utility	Electric Utility	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,955,828	\$ 3,701,119	\$ 15,642,699	\$ 21,299,646
Payments to suppliers	(726,996)	(757,906)	(11,363,805)	(12,848,707)
Payments to employees	(876,441)	(975,871)	(2,699,843)	(4,552,155)
Other receipts	139,518	33,904	79,546	252,968
Net cash provided by operating activities	<u>491,909</u>	<u>2,001,246</u>	<u>1,658,597</u>	<u>4,151,752</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(59,734)	-	(381,078)	(440,812)
Miscellaneous nonoperating revenue	4,958	11,352	22,950	39,260
Net cash provided (used) by noncapital financing activities	<u>(54,776)</u>	<u>11,352</u>	<u>(358,128)</u>	<u>(401,552)</u>
Cash flows from capital and related financing activities:				
Capital contributions	27,786	39,933	21,339	89,058
Acquisition and construction of capital assets	(309,476)	(462,819)	(617,157)	(1,389,452)
Release of retainage payable	-	(32,047)	-	(32,047)
Principal paid on capital debt	(46,948)	(798,546)	-	(845,494)
Interest paid on capital debt	(2,828)	(357,691)	-	(360,519)
Net cash used by capital and related financing activities	<u>(331,466)</u>	<u>(1,611,170)</u>	<u>(595,818)</u>	<u>(2,538,454)</u>
Cash flows from investing activities:				
Interest received	36,005	159,633	108,476	304,114
Net increase in cash and cash equivalents	141,672	561,061	813,127	1,515,860
Cash and cash equivalents, January 1 (Including \$172,620, \$7,557,804, and \$228,010 for customer deposits, debt covenants and other, respectively, reported in restricted accounts)	<u>1,285,007</u>	<u>5,779,749</u>	<u>3,450,598</u>	<u>10,515,354</u>
Cash and cash equivalents, December 31 (Including \$200,205, \$9,254,512, and \$490,169 for customer deposits, debt covenant and other, respectively, reported in restricted accounts)	<u>\$ 1,426,679</u>	<u>\$ 6,340,810</u>	<u>\$ 4,263,725</u>	<u>\$ 12,031,214</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 187,530	\$ 1,607,795	\$ (39,664)	\$ 1,755,661
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	274,549	399,456	1,383,255	2,057,260
(Increase) decrease in assets:				
Accounts receivable	(43,621)	(14,961)	(126,295)	(184,877)
Other current assets	74,247	-	(31)	74,216
Inventories	11,879	-	(29,878)	(17,999)
Prepaid items	11,996	(2,234)	13,030	22,792
Increase (decrease) in liabilities:				
Customer deposits	7,025	6,960	13,600	27,585
Accounts payable	(33,197)	(13,640)	409,376	362,539
Other current liabilities	(1,694)	14,480	22,484	35,270
Compensated absence payable	3,195	3,390	12,720	19,305
Total adjustments	<u>304,379</u>	<u>393,451</u>	<u>1,698,261</u>	<u>2,396,091</u>
Net cash provided by operating activities	<u>\$ 491,909</u>	<u>\$ 2,001,246</u>	<u>\$ 1,658,597</u>	<u>\$ 4,151,752</u>
Noncash investing, capital and financing activities:				
Construction in progress transfers to capital assets	\$ 13,085	\$ 17,273,619	\$ -	-
Acquisition of capital assets through loan payable	-	5,808,904	-	-
Interest expense capitalized	-	354,469	-	-
Contributions of capital assets	24,956	42,492	-	-

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

CITY OF PERU  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Additions:			
Contributions:			
Plan members	\$ 4,314	\$ -	\$ -
Other	<u>870,491</u>	<u>6,730</u>	<u>-</u>
Total contributions	<u>874,805</u>	<u>6,730</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>-</u>	<u>9,210,279</u>
Total additions	<u>874,805</u>	<u>6,730</u>	<u>9,210,279</u>
Deductions:			
Benefits	1,191,933	-	-
Administrative and general	2,478	19,015	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>9,185,215</u>
Total deductions	<u>1,194,411</u>	<u>19,015</u>	<u>9,185,215</u>
Excess (deficiency) of total additions over (under) total deductions	(319,606)	(12,285)	25,064
Cash and investment fund balance - beginning	<u>704,820</u>	<u>30,353</u>	<u>89,464</u>
Cash and investment fund balance - ending	<u>\$ 385,214</u>	<u>\$ 18,068</u>	<u>\$ 114,528</u>

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

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, electric, water, wastewater, and urban redevelopment.

The City's financial reporting entity is composed of the following:

Primary Government: City of Peru

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The economic development income tax fund accounts for the City's share of the county economic development income tax and is used for infrastructure, interest buy-downs, and other incentives to promote industrial job growth according to the City's capital improvement plan.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The electric utility fund accounts for the operation of the electric distribution system.

Additionally, the City reports the following fund types:

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the city court.

Agency funds account for assets held by the City as an agent for other governments and City employees.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

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.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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 City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and City owned Utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Proprietary funds distinguish operating revenue 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 proprietary funds are charges to customers for sales and services. Operating expenses for

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

proprietary 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. Net Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Inventories and Prepaid Items – Proprietary Funds

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the proprietary fund financial statements.

3. Restricted Assets – Proprietary Funds

Certain proceeds of the proprietary fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited to customer refunds, revenue bond covenants, and other restrictions.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

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 reported in the proprietary fund financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building	\$ 2,500	Composite rate	33 to 67 years
Improvements other than buildings	2,500	Composite rate	33 to 67 years
Machinery and equipment	2,500	Composite rate	33 to 67 years
Transportation equipment	2,500	Composite rate	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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the proprietary funds is included as part of the capitalized value of the assets constructed. The total interest was capitalized by the primary government in its proprietary fund during the current year was \$360,519.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Of the amount \$354,469 was included as part of the cost of capital assets under construction in connection with the wastewater treatment plant expansion and collection system upgrade.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

In the proprietary funds financial statements, 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.

6. Compensated Absences

a. Sick Leave

City employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees upon termination.

Utility employees earn sick leave at the rate of 1 day per month, plus 1 additional day per quarter. Unused sick leave may be accumulated to a maximum of 47 days. Upon leave of employment, an employee will receive payment for 20% of their accumulated sick leave. All employees who have accumulated the maximum of 47 days and do not use any sick days throughout an entire quarter will receive 1 day's additional severance pay upon retirement or resignation.

b. Vacation Leave

City employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year, except for nonunion employees who can, with prior approval of the general manager, carry over up to 5 days at year end.

c. Personal Leave

City employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

Utility employees who have accumulated the maximum of 47 sick days earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

Utility employee's sick leave is accrued when incurred at 20% of related wages and severance pay is accrued when earned.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

7. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments (2) law through constitutional provisions or enabling legislations.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified as net assets.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds).

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2005, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

<u>Fund</u>	<u>2005</u>
Lease Rental	<u>\$ 19,009</u>

These disbursements were funded by available fund balances.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, were as follows:

Transfer From	Transfer To	2005
Water Utility	General Fund	\$ 59,734
Electric Utility	General Fund	<u>381,078</u>
Total		<u>\$ 440,812</u>

The City typically uses transfers to fund ongoing operating subsidies.

C. Capital Assets – Proprietary Funds

Capital asset activity for the year ended December 31, 2005 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 68,266	\$ -	\$ -	\$ 68,266
Construction in progress	13,085	28,391	13,085	28,391
Capital assets, being depreciated:				
Buildings	2,847,477	6,042	17,065	2,836,454
Improvements other than buildings	12,495,541	185,218	35,383	12,645,376
Machinery and equipment	1,634,050	127,866	-	1,761,916
Less accumulated depreciation for:				
Buildings	(499,968)	(42,712)	(17,065)	(525,615)
Improvements other than buildings	(2,750,213)	(187,433)	(35,413)	(2,902,233)
Machinery and equipment	<u>(644,618)</u>	<u>(44,434)</u>	<u>-</u>	<u>(689,052)</u>
Total Water Utility capital assets, net	<u>13,163,620</u>	<u>72,938</u>	<u>13,055</u>	<u>13,223,503</u>

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities (continued):				
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	305,132	-	-	305,132
Construction in progress	10,753,885	6,668,682	17,273,617	148,950
Capital assets, being depreciated:				
Buildings	5,348,339	4,305,176	1,150,422	8,503,093
Improvements other than buildings	10,270,150	5,132,704	224,220	15,178,634
Machinery and equipment	2,104,049	7,835,736	253,785	9,686,000
Less accumulated depreciation for:				
Buildings	(1,118,445)	(106,966)	(1,150,422)	(74,989)
Improvements other than buildings	(3,028,595)	(205,403)	(224,220)	(3,009,778)
Machinery and equipment	(1,222,793)	(86,763)	(253,464)	(1,056,092)
 Total Wastewater Utility capital assets, net	 <u>23,411,722</u>	 <u>23,543,166</u>	 <u>17,273,938</u>	 <u>29,680,950</u>
 Electric Utility:				
Capital assets, not being depreciated:				
Land	160,445	-	-	160,445
Capital assets, being depreciated:				
Buildings	3,764,221	23,065	8,236	3,779,050
Improvements other than buildings	38,414,955	581,234	110,867	38,885,322
Machinery and equipment	1,435,382	12,856	-	1,448,238
Less accumulated depreciation for:				
Buildings	(2,052,690)	(112,927)	(8,236)	(2,157,381)
Improvements other than buildings	(23,125,656)	(1,152,447)	(110,867)	(24,167,236)
Machinery and equipment	(960,880)	(117,879)	-	(1,078,759)
 Total Electric Utility capital assets, net	 <u>17,635,777</u>	 <u>(766,098)</u>	 <u>-</u>	 <u>16,869,679</u>
 Total business-type activities capital assets, net	 <u>\$ 54,211,119</u>	 <u>\$ 22,850,006</u>	 <u>\$ 17,286,993</u>	 <u>\$ 59,774,132</u>

D. Construction Commitments – Proprietary Funds

Construction work in progress is composed of the following:

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Project</u>	<u>Project Authorized</u>	<u>December 31, 2005</u>	<u>Committed</u>
Business-type activities:			
Water treatment building	\$ 100,000	\$ 25,366	\$ 25,366
Water tool shop and garage	10,000	3,025	6,975
Wastewater office building	250,000	106,796	43,204
Wastewater grissom stormwater	60,000	28,520	31,480
Wastewater new piping	<u>36,000</u>	<u>13,634</u>	<u>22,366</u>
<b>Totals</b>	<b><u>\$ 456,000</u></b>	<b><u>\$ 177,341</u></b>	<b><u>\$ 129,391</u></b>

E. Long-Term Liabilities – Proprietary Funds

1. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of a treatment plant expansion and collection system upgrade. Funds are loaned to the City as construction costs are accrued to the maximum allowed. The 2000 loan established a maximum draw of \$18,665,000. As of December 31, 2005, the outstanding loan principal balance was \$14,158,706, and the amount left available was \$2,341,294. Annual debt service requirements for the 2000 loan will not be determined until planned construction projects are completed, expected to be during the summer of 2006.

2. Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2005, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Water Utility:					
Loans payable	\$ 71,260	\$ -	\$ 46,948	\$ 24,312	\$ 24,312
Compensated absences	<u>24,339</u>	<u>3,195</u>	<u>-</u>	<u>27,534</u>	<u>-</u>
Total Water Utility long-term liabilities	<u>95,599</u>	<u>3,195</u>	<u>46,948</u>	<u>51,846</u>	<u>24,312</u>
Wastewater Utility:					
Loans payable	9,176,076	5,808,904	798,546	14,186,434	27,728
Compensated absences	<u>22,731</u>	<u>3,390</u>	<u>-</u>	<u>26,121</u>	<u>-</u>
Total Wastewater Utility long-term liabilities	<u>9,198,807</u>	<u>5,812,294</u>	<u>798,546</u>	<u>14,212,555</u>	<u>27,728</u>
Electric Utility:					
Compensated absences	<u>72,513</u>	<u>12,720</u>	<u>-</u>	<u>85,233</u>	<u>-</u>
Total business-type activities long-term liabilities	<b><u>\$ 9,366,919</u></b>	<b><u>\$ 5,828,209</u></b>	<b><u>\$ 845,494</u></b>	<b><u>\$ 14,349,634</u></b>	<b><u>\$ 52,040</u></b>

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

IV. Other Information

A. Risk Management

The City 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

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees, dependents and retirees. The risk financing fund is accounted for in the General Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. All costs associated with this risk are paid from the Board of Public Works and Safety budget within the General Fund. The City pays a level monthly amount to a third party administrator who pays all claims, premiums and administrative costs. Any funds on hand at the end of the year are presented in the Statement of Cash and Investments as cash with fiscal agent.

B. Purchase and Sale of Power – Electric Utility

The Peru Electric Utility is a member of the Indiana Municipal Power Agency (IMPA). IMPA is an incorporated political subdivision of the State of Indiana pursuant to Indiana Code 8-1-2.2 and serves as a supplier of electric power to forty municipalities in Indiana. IMPA purchases power from private generating sources and from four municipal power generating stations, one of which is owned by the Peru Electric Utility.

A contractual agreement between IMPA and the Peru Electric Utility require that the Utility sell all of its generated power to IMPA and purchase its power demands for servicing its customers from IMPA. The following schedule summarizes the Utility's total power purchases and sales transactions with IMPA for the years 2005 and 2004:

	2005		2004	
	Megawatt Hours	Average Price	Megawatt Hours	Average Price
Power sold to IMPA	40,490	\$ 38.13	27,405	\$ 38.42
Power purchased from IMPA	277,354	45.44	251,742	41.10

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Major Customers

The Peru Utilities have two major customers who account for a significant portion of utility revenues. The customers and the percentage of revenue attributable to each for 2005 are as follows:

<u>Customer</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
ConAgra	1.7%	4.6%	13.5%
Miami Correctional Facility	12.0%	11.6%	5.4%

D. Holding Corporations

The City has entered into a capital lease with the Peru City Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the year totaled \$115,350.

The City has entered into a capital lease with Peru Municipal Facilities Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the year totaled \$325,500. Miami County has pledged a portion of their economic development income tax revenue to pay one half the lease payments. The City received \$162,750 from Miami County in 2005.

The City has entered into a capital lease with the Peru Municipal Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the year totaled \$87,500.

E. Postemployment Benefits

In addition to the pension benefits described in Note IV. G., the City provides postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all police and firefighters who retire from the City with at least 25 years of service. Currently, 17 retirees meet these eligibility requirements. The City provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized when funds are set aside to pay future claims for both current employees and retirees. Disbursements for postemployment benefits cannot be reasonably estimated.

In addition the Utilities provide postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utility who are eligible for a full PERF pension. Currently, 21 retirees meet these eligibility requirements. The Utility provides 100% of these postemployment benefits except for a flat monthly premium charged to each retiree based on number of years of service. Expenses for those postemployment benefits are recognized when funds are set aside to pay future claims for both current employees and retirees. During the year ended December 31, 2005, net disbursements of \$73,111 were recognized for postemployment benefits.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on April 14, 1994.

Rates for customers located within the Grissom Aeroplex are not subject to approval by the IURC. The current rate structure for Grissom Aeroplex customers was approved by the City Council on January 6, 2003.

Wastewater Utility

The current rate structure was approved by the City Council on April 10, 2000. The rate ordinance provided for a 166% rate increase phased in over five years with the first increase effective June 15, 2000, and then annual increases effective each January 1 through January 1, 2004.

Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on October 1, 1993.

The Utility is currently under contract with H.J. Umbaugh and Associates to perform a rate study.

G. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

	City PERF	1925 Police Officers' Pension	1937 Firefighters' Pension	Utility PERF
Annual required contribution	\$ 42,647	\$ 684,600	\$ 1,199,300	\$ 188,689
Interest on net pension obligation	(4,058)	108,400	205,700	(9,950)
Adjustment to annual required contribution	4,625	(180,900)	(343,200)	11,339
Annual pension cost	43,214	612,100	1,061,800	190,078
Contributions made	67,525	522,652	701,910	220,419
Increase (decrease) in net pension obligation	(24,311)	89,448	359,890	(30,341)
Net pension obligation, beginning of year	(55,974)	1,606,633	3,047,962	(137,247)
Net pension obligation, end of year	<u>\$ (80,285)</u>	<u>\$ 1,696,081</u>	<u>\$ 3,407,852</u>	<u>\$ (167,588)</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension	Utility PERF
Contribution rates:				
City	6.5%	1963%	903%	6.5%
Plan members	3%	6%	6%	3%
Actuarial valuation date	07-01-05	01-01-04	01-01-04	07-01-05
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level	Level	Level	Level
	percentage of projected payroll, closed	percentage of projected payroll, closed	percentage of projected payroll, closed	percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years	40 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05	07-01-97
Asset valuation method	75% of expected Actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital	75% of expected Actuarial value plus 25% of market value

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension	Utility PERF
Investment rate of return	7.25%	6%	6%	7.25%
Projected future salary increases:				
Total	5%	4%	4%	5%
Attributed to inflation	4%	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%	1%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*	2%

\*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 58,374	121%	\$ (46,319)
	06-30-04	59,591	116%	(55,974)
	06-30-05	43,214	113%	(80,285)
1925 Police Officers' Pension Plan	12-31-01	678,600	82%	1,558,908
	12-31-02	575,200	92%	1,606,633
	12-31-03	612,100	85%	1,696,081
1937 Firefighters' Pension Plan	12-31-01	1,002,800	63%	2,700,622
	12-31-02	1,030,500	66%	3,047,962
	12-31-03	1,061,800	66%	3,407,852
Utility PERF	06-30-03	226,214	92%	(101,255)
	06-30-04	187,349	119%	(137,247)
	06-30-05	190,078	118%	(167,588)

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2005, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	30	36
Current active employees	0	2

CITY OF PERU  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$415,516, \$407,701, and \$368,546, respectively, equal to the required contributions for each year.

CITY OF PERU  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund - City

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,009,798	\$ 1,148,400	\$ (138,602)	88%	\$ 1,049,792	(13%)
07-01-04	1,038,687	1,071,503	(32,816)	97%	844,365	(4%)
07-01-05	1,092,072	1,262,196	(170,124)	87%	1,068,676	(16%)

Public Employees' Retirement Fund - Utility

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 3,347,645	\$ 3,895,019	\$ (547,374)	86%	\$ 3,171,033	(17%)
07-01-04	3,438,432	4,034,463	(596,031)	85%	3,085,952	(19%)
07-01-05	3,612,659	4,589,158	(976,499)	79%	3,331,990	(29%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 175,896	\$ 7,105,200	\$ (6,929,304)	2%	\$ 140,300	(4,939%)
01-01-00	143,059	6,830,500	(6,687,441)	2%	86,800	(7,704%)
01-01-01	297,478	7,191,600	(6,894,122)	4%	29,800	(23,135%)
01-01-02	405,579	6,041,900	(5,636,321)	7%	31,000	(18,182%)
01-01-03	464,943	6,197,700	(5,732,757)	8%	64,200	(8,930%)
01-01-04	490,334	5,781,700	(5,291,366)	8%	*	*

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 216,988	\$ 10,364,000	\$ (10,147,012)	2%	\$ 196,500	(5,164%)
01-01-00	220,121	10,492,400	(10,272,279)	2%	173,600	(5,917%)
01-01-01	279,515	10,455,400	(10,175,885)	3%	149,000	(6,829%)
01-01-02	373,941	10,638,100	(10,264,159)	4%	124,000	(8,278%)
01-01-03	461,871	9,331,400	(8,869,529)	5%	192,500	(4,608%)
01-01-04	561,999	10,699,700	(10,137,701)	5%	132,800	(7,634%)

\* Covered payroll was \$-0-.

CITY OF PERU  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULES OF CONTRIBUTIONS FROM THE  
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan				
	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-96	\$ 671,000	56%	0%
	12-31-97	813,000	50%	0%
	12-31-98	811,000	54%	0%
	12-31-99	703,700	49%	0%
	12-31-00	685,100	84%	0%
	12-31-01	731,100	76%	0%
	12-31-02	638,500	83%	0%
	12-31-03	684,600	76%	0%
1937 Firefighters' Pension Plan	12-31-96	\$ 854,300	49%	0%
	12-31-97	966,500	48%	0%
	12-31-98	1,037,300	51%	0%
	12-31-99	1,031,300	48%	0%
	12-31-00	1,066,400	54%	0%
	12-31-01	1,088,000	58%	0%
	12-31-02	1,140,200	60%	0%
	12-31-03	1,199,300	59%	0%

CITY OF PERU  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2005

	Motor Vehicle Highway	Local Road and Street	Park and Recreation	LECE	Aviation	Rainy Day	Metro Arson	Parking Meter
<b>Receipts:</b>								
Taxes	\$ 53,581	\$ -	\$ 84,953	\$ -	\$ 53,110	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	1,592	-	-	-	-
Intergovernmental	400,032	56,126	11,638	-	6,837	-	-	-
Charges for services	-	-	200,884	3,783	-	-	-	1,506
Fines and forfeits	-	-	-	870	-	-	-	1,050
Other	10,890	-	2,502	809	5,785	-	7,441	-
<b>Total receipts</b>	<b>464,503</b>	<b>56,126</b>	<b>299,977</b>	<b>7,054</b>	<b>65,732</b>	<b>-</b>	<b>7,441</b>	<b>2,556</b>
<b>Disbursements:</b>								
General government	-	-	-	-	57,324	126,000	-	-
Public safety	-	-	-	6,534	-	-	6,863	-
Highways and streets	528,328	58,258	-	-	-	-	-	-
Culture and recreation	-	-	409,070	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
Highways and streets	-	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>528,328</b>	<b>58,258</b>	<b>409,070</b>	<b>6,534</b>	<b>57,324</b>	<b>126,000</b>	<b>6,863</b>	<b>-</b>
Excess (deficiency) of revenue over (under) disbursements	(63,825)	(2,132)	(109,093)	520	8,408	(126,000)	578	2,556
Cash and investment fund balance - beginning	270,589	17,140	218,177	9,457	8,023	126,565	1,108	10,354
Cash and investment fund balance - ending	\$ 206,764	\$ 15,008	\$ 109,084	\$ 9,977	\$ 16,431	\$ 565	\$ 1,686	\$ 12,910
<b>Cash and Investment Assets - December 31</b>								
Cash and investments	\$ 206,764	\$ 15,008	\$ 109,084	\$ 9,977	\$ 16,431	\$ 565	\$ 1,686	\$ 12,910
<b>Cash and Investment Fund Balance - December 31</b>								
Restricted for:								
Public safety	\$ -	\$ -	\$ -	\$ 9,977	\$ -	\$ -	\$ 1,686	\$ 12,910
Highway and streets	206,764	15,008	-	-	-	-	-	-
Culture and recreation	-	-	109,084	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Other purposes	-	-	-	-	16,431	565	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 206,764</b>	<b>\$ 15,008</b>	<b>\$ 109,084</b>	<b>\$ 9,977</b>	<b>\$ 16,431</b>	<b>\$ 565</b>	<b>\$ 1,686</b>	<b>\$ 12,910</b>

CITY OF PERU  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2005  
 (Continued)

	Criminal Investigation	Park NR Opr	Riverfront Walkway	Unsafe Building	Education Summit	IU Childseat	Airport Improvement
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	1,110	32,166
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	16,783	-	-	50,000	6,234	-	-
Total receipts	16,783	-	-	50,000	6,234	1,110	32,166
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	42,311	-	-	116,400	-	2,225	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	10,016	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Highways and streets	-	-	-	-	-	-	33,990
Total disbursements	42,311	10,016	-	116,400	-	2,225	33,990
Excess (deficiency) of revenue over (under) disbursements	(25,528)	(10,016)	-	(66,400)	6,234	(1,115)	(1,824)
Cash and investment fund balance - beginning	55,283	19,236	3,439	78,598	-	2,739	9,570
Cash and investment fund balance - ending	\$ 29,755	\$ 9,220	\$ 3,439	\$ 12,198	\$ 6,234	\$ 1,624	\$ 7,746
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 29,755	\$ 9,220	\$ 3,439	\$ 12,198	\$ 6,234	\$ 1,624	\$ 7,746
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ 29,755	\$ -	\$ -	\$ 12,198	\$ -	\$ 1,624	\$ -
Highway and streets	-	-	-	-	-	-	-
Culture and recreation	-	9,220	3,439	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other purposes	-	-	-	-	6,234	-	7,746
Total cash and investment fund balance - December 31	\$ 29,755	\$ 9,220	\$ 3,439	\$ 12,198	\$ 6,234	\$ 1,624	\$ 7,746

CITY OF PERU  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2005  
 (Continued)

	Golf Irrigation	Cum Capital Improvement	Park NR Capital	Sp Street and Sanitation	Cum Bldg Equipment	Airport Taxiway/ FAA Grant	Cable TV
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 56,009	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	40,168	-	-	7,035	493,766	-
Charges for services	30,255	-	-	-	-	-	18,346
Fines and forfeits	-	-	-	-	-	-	-
Other	-	-	-	23,561	116	25,000	-
<b>Total receipts</b>	<b>30,255</b>	<b>40,168</b>	<b>-</b>	<b>23,561</b>	<b>63,160</b>	<b>518,766</b>	<b>18,346</b>
Disbursements:							
General government	-	-	-	-	-	-	18,295
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	73,142	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Highways and streets	-	-	-	-	87,500	434,616	-
<b>Total disbursements</b>	<b>73,142</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87,500</b>	<b>434,616</b>	<b>18,295</b>
Excess (deficiency) of revenue over (under) disbursements	(42,887)	40,168	-	23,561	(24,340)	84,150	51
Cash and investment fund balance - beginning	130,071	108,812	1,211	33,674	27,588	-	55,138
Cash and investment fund balance - ending	\$ 87,184	\$ 148,980	\$ 1,211	\$ 57,235	\$ 3,248	\$ 84,150	\$ 55,189
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 87,184	\$ 148,980	\$ 1,211	\$ 57,235	\$ 3,248	\$ 84,150	\$ 55,189
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highway and streets	-	-	-	57,235	-	-	-
Culture and recreation	87,184	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	148,980	1,211	-	3,248	84,150	-
Other purposes	-	-	-	-	-	-	55,189
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 87,184</b>	<b>\$ 148,980</b>	<b>\$ 1,211</b>	<b>\$ 57,235</b>	<b>\$ 3,248</b>	<b>\$ 84,150</b>	<b>\$ 55,189</b>

CITY OF PERU  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2005  
 (Continued)

	Pretrial Deferral	Drug 03-DB-038	Lease Rental/ Debt Payment	Bond Proceeds/ Project	Debt Service	Stormwater	Totals
<b>Receipts:</b>							
Taxes	\$ -	\$ -	\$ 109,719	\$ -	\$ 181,450	\$ -	\$ 538,822
Licenses and permits	-	-	-	-	-	-	1,592
Intergovernmental	-	-	15,998	-	18,671	-	1,083,547
Charges for services	-	-	-	-	-	830,280	1,085,054
Fines and forfeits	-	-	-	-	-	-	1,920
Other	133,848	-	427	-	-	-	283,396
<b>Total receipts</b>	<b>133,848</b>	<b>-</b>	<b>126,144</b>	<b>-</b>	<b>200,121</b>	<b>830,280</b>	<b>2,994,331</b>
<b>Disbursements:</b>							
General government	-	-	-	-	-	-	201,619
Public safety	165,497	1,743	-	-	-	-	341,573
Highways and streets	-	-	-	-	-	-	586,586
Culture and recreation	-	-	-	-	-	-	492,228
Debt service:							
Principal	-	-	109,505	-	80,000	-	189,505
Interest	-	-	5,845	-	39,697	-	45,542
Capital outlay:							
Highways and streets	-	-	-	832,399	-	890,052	2,278,557
<b>Total disbursements</b>	<b>165,497</b>	<b>1,743</b>	<b>115,350</b>	<b>832,399</b>	<b>119,697</b>	<b>890,052</b>	<b>4,135,610</b>
Excess (deficiency) of revenue over (under) disbursements	(31,649)	(1,743)	10,794	(832,399)	80,424	(59,772)	(1,141,279)
Cash and investment fund balance - beginning	230,373	1,743	(18,753)	1,540,682	-	90,646	3,031,463
Cash and investment fund balance - ending	<u>\$ 198,724</u>	<u>\$ -</u>	<u>\$ (7,959)</u>	<u>\$ 708,283</u>	<u>\$ 80,424</u>	<u>\$ 30,874</u>	<u>\$ 1,890,184</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	<u>\$ 198,724</u>	<u>\$ -</u>	<u>\$ (7,959)</u>	<u>\$ 708,283</u>	<u>\$ 80,424</u>	<u>\$ 30,874</u>	<u>\$ 1,890,184</u>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Public safety	\$ 198,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 266,874
Highway and streets	-	-	-	-	-	-	279,007
Culture and recreation	-	-	-	-	-	-	208,927
Debt service	-	-	(7,959)	-	80,424	-	72,465
Capital outlay	-	-	-	708,283	-	-	945,872
Other purposes	-	-	-	-	-	30,874	117,039
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 198,724</u>	<u>\$ -</u>	<u>\$ (7,959)</u>	<u>\$ 708,283</u>	<u>\$ 80,424</u>	<u>\$ 30,874</u>	<u>\$ 1,890,184</u>

CITY OF PERU  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PENSION TRUST FUNDS  
 For The Year Ended December 31, 2005

	Police Pension	Fire Pension	Total
Additions:			
Contributions:			
Employer	\$ 403,507	\$ 466,515	\$ 870,022
Plan members	949	3,834	4,783
Total contributions	404,456	470,349	874,805
Deductions:			
Benefits	515,280	676,653	1,191,933
Administrative and general	-	2,478	2,478
Total deductions	515,280	679,131	1,194,411
Deficiency of total additions under total deductions	(110,824)	(208,782)	(319,606)
Cash and investment fund balance - beginning	366,113	338,707	704,820
Cash and investment fund balance - ending	\$ 255,289	\$ 129,925	\$ 385,214

CITY OF PERU  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2005

	<u>Court Costs Due County</u>	<u>User Fee</u>	<u>City Court</u>	<u>Payroll</u>	<u>Total</u>
Additions:					
Agency fund additions	\$ 30,314	\$ 136,177	\$ 444,348	\$ 8,599,440	\$ 9,210,279
Deductions:					
Agency fund deductions	30,314	135,982	432,013	8,586,906	9,185,215
Excess of total additions over total deductions	-	195	12,335	12,534	25,064
Cash and investment fund balance - beginning	-	7,202	2,983	79,279	89,464
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 7,397</u>	<u>\$ 15,318</u>	<u>\$ 91,813</u>	<u>\$ 114,528</u>

CITY OF PERU  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSET - GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2005

Primary Government	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 711,448
Infrastructure	80,130,019
Buildings	8,061,251
Improvement other than buildings	2,287,964
Machinery and equipment	6,585,605
Construction in progress	280,500
 Total governmental activities, capital assets not being depreciated	 \$ 98,056,787

CITY OF PERU  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT - GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2005

Description of Assets	Present Value of Net Minimum Lease Payments
Infrastructure and equipment	\$ <u>5,419,096</u>
Governmental activities:	
Loans payable	\$ 280,500
Bonds payable:	
General obligation Series 2004	<u>1,500,000</u>
Total governmental activities debt	\$ <u>1,780,500</u>

CITY OF PERU  
AUDIT RESULTS AND COMMENTS

OVERPAYMENT COLLECTIONS

Pension benefits of \$13,442 were made during the years 2003 and 2004 by the City of Peru to Gary Nichols, a retired City policeman. His pension should have been paid by the Public Employee's Retirement Fund (PERF). The City and PERF are still in the process of trying to resolve this issue. A refund from PERF has not been received by the City as of August 2, 2006. A similar comment was in the prior Audit Report B25796.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Lease Rental	2005	<u>\$ 19,009</u>

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined.

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF PERU, MIAMI COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Peru (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirement(s) of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 2, 2006

CITY OF PERU  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Department of Criminal Justice Edward Byrne Memorial Formula Grant Program	16.579	03-DB-038	\$ 1,743
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		14,550
Local Law Enforcement Block Grant Program	16.592		5,695
Total for federal grantor agency			21,988
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant			
Airport Improvement Program	20.106		
		AIP-04	32,290
		AIP-06	542,528
Total for program			574,818
Pass-Through Indiana Department of Transportation Highway Planning and Construction	20.205	STP-9952 (028)	141,571
Total for federal grantor agency			716,389
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds	66.458	CS182155 01	2,278,774
Total federal awards expended			\$ 3,017,151

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF PERU  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Peru (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF PERU  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF PERU  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF PERU  
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2006, with Jackquan Gray, Clerk-Treasurer; and James Walker, Mayor. The officials concurred with our audit findings.

The contents of this report were discussed on August 2, 2006, with Jim Richter, Utility Service Board Member; Roger Merriman, General Manager; Leah Aikman, Utility Office Manager; and Kevin Shives, Assistant Office Manager.