

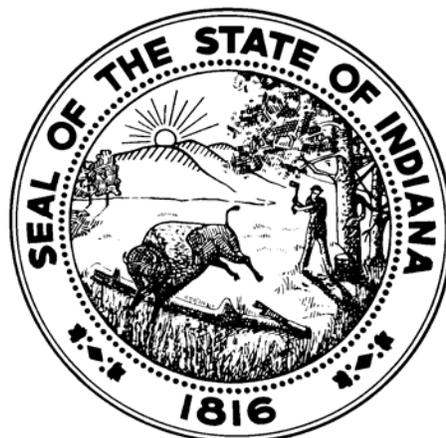
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

CITY OF PERU

MIAMI COUNTY, INDIANA



FILED

09/28/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	7
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds.....	8
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	9
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds	10
Notes to Financial Statements	11-23
Required Supplementary Information:	
Schedules of Funding Progress.....	24
Schedule of Contributions From the Employer and Other Contributing Entities.....	25
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds.....	26-30
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Pension Trust Funds.....	31
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Agency Funds.....	32
Schedule of Capital Assets.....	33
Schedule of Long-Term Debt.....	34
Other Report.....	35
Audit Results and Comments:	
Overpayment Collections.....	36
Appropriations.....	36
Aviation Commission Contracts.....	36
Supplemental Audit of Federal Awards:	
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	38-39
Schedule of Expenditures of Federal Awards.....	40
Note to Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs.....	42
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings.....	43
Exit Conference.....	44
Official Response	45

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jackquan E. 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 Utilities	Roger B. Merriman	01-01-06 to 12-31-07
Superintendent of Water Utility	Mike Dalquist	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Mike Dalquist	01-01-06 to 12-31-07
Superintendent of Electric Utility Transmission and Distribution	Curt Bankston (Interim) Joseph Wallace	01-01-06 to 03-12-06 03-13-06 to 12-31-07
Superintendent of Electric Utility Power Plant	Jeffrey Jernberg	01-01-06 to 12-31-07
Superintendent of Storm Water Utility	Jarmin Beisiegel	01-01-06 to 12-31-07
Utility Office Manager	Leah Aikman	01-01-06 to 12-31-07



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 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, 2006, 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 its financial statements 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.

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated September 13, 2007, 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.

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.

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

The Schedules of Funding Progress and 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 required parts 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

September 13, 2007



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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS 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 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 13, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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

September 13, 2007

CITY OF PERU
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 2,896,872	\$ 167,620	\$ 7,523	\$ -	\$ (2,721,729)	\$ -	\$ (2,721,729)
Public safety	3,405,396	72,403	59,798	-	(3,273,195)	-	(3,273,195)
Highways and streets	530,270	-	-	-	(530,270)	-	(530,270)
Sanitation	769,720	-	-	-	(769,720)	-	(769,720)
Economic development	1,206,151	-	-	236,845	(969,306)	-	(969,306)
Culture and recreation	402,448	227,645	-	-	(174,803)	-	(174,803)
Debt service	425,000	-	-	-	(425,000)	-	(425,000)
Capital outlay	983,355	-	-	687,355	(296,000)	-	(296,000)
Interest on long-term debt	257,299	-	-	-	(257,299)	-	(257,299)
Total governmental activities	10,876,511	467,668	67,321	924,200	(9,417,322)	-	(9,417,322)
Business-type activities:							
Water	1,955,630	1,995,720	-	-	-	40,090	40,090
Wastewater	3,769,783	3,609,458	-	11,311	-	(149,014)	(149,014)
Electric	15,826,694	15,970,548	-	36,880	-	180,734	180,734
Storm Water	145,648	350,641	53,984	-	-	258,977	258,977
Total business-type activities	21,697,755	21,926,367	53,984	48,191	-	330,787	330,787
Total primary government	\$ 32,574,266	\$ 22,394,035	\$ 121,305	\$ 972,391	(9,417,322)	330,787	(9,086,535)
General receipts:							
Property taxes					6,582,301	-	6,582,301
Other local sources					6,696	-	6,696
Grants and contributions not restricted to specific programs					3,466,339	-	3,466,339
Unrestricted investment earnings					120,037	555,897	675,934
Extraordinary item:							
Receipts from demutualization of insurance					-	108,915	108,915
Transfers					440,812	(440,812)	-
Total general receipts, extraordinary item, and transfers					10,616,185	224,000	10,840,185
Change in net assets					1,198,863	554,787	1,753,650
Net assets - beginning					3,155,582	12,031,214	15,186,796
Net assets - ending					\$ 4,354,445	\$ 12,586,001	\$ 16,940,446
Assets							
Cash and investments					\$ 2,030,537	\$ 4,034,434	\$ 6,064,971
Cash with fiscal agent					68,473	-	68,473
Restricted assets:							
Cash and investments					2,255,435	8,467,867	10,723,302
Cash with fiscal agent					-	83,700	83,700
Total assets					\$ 4,354,445	\$ 12,586,001	\$ 16,940,446
Net Assets							
Restricted for:							
Public safety					\$ 278,506	\$ -	\$ 278,506
Highways and streets					496,888	-	496,888
Sanitation					29,775	-	29,775
Culture and recreation					168,830	-	168,830
Urban redevelopment and housing					289,096	-	289,096
Debt service					203,035	1,808,135	2,011,170
Capital outlay					297,556	6,531,382	6,828,938
Other purposes					491,749	212,050	703,799
Unrestricted					2,099,010	4,034,434	6,133,444
Total net assets					\$ 4,354,445	\$ 12,586,001	\$ 16,940,446

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, 2006

	General	Economic Development Income Tax	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 5,617,513	\$ -	\$ 964,788	\$ 6,582,301
Licenses and permits	28,101	-	4,512	32,613
Intergovernmental	1,679,146	740,109	1,400,598	3,819,853
Charges for services	112,028	-	406,130	518,158
Fines and forfeits	61,782	-	2,713	64,495
Other	154,125	322,561	140,456	617,142
Total receipts	7,652,695	1,062,670	2,919,197	11,634,562
Disbursements:				
General government	2,228,643	47,823	362,551	2,639,017
Public safety	3,174,233	-	231,163	3,405,396
Highways and streets	-	-	530,270	530,270
Sanitation	769,720	-	-	769,720
Culture and recreation	-	-	402,448	402,448
Urban redevelopment and housing	-	1,206,151	-	1,206,151
Debt service:				
Principal	-	205,000	220,000	425,000
Interest	-	118,000	139,299	257,299
Capital outlay:				
Highways and streets	-	-	983,355	983,355
Total disbursements	6,172,596	1,576,974	2,869,086	10,618,656
Excess (deficiency) of receipts over disbursements	1,480,099	(514,304)	50,111	1,015,906
Other financing sources (uses):				
Transfers in	440,812	-	41,538	482,350
Transfers out	(7,976)	-	(33,562)	(41,538)
Other disbursements	-	(257,855)	-	(257,855)
Total other financing sources (uses)	432,836	(257,855)	7,976	182,957
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,912,935	(772,159)	58,087	1,198,863
Cash and investment fund balance - beginning	186,075	1,061,255	1,908,252	3,155,582
Cash and investment fund balance - ending	\$ 2,099,010	\$ 289,096	\$ 1,966,339	\$ 4,354,445
Cash and Investment Assets - December 31				
Cash and investments	\$ 2,030,537	\$ -	\$ -	\$ 2,030,537
Cash with fiscal agent	68,473	-	-	68,473
Restricted assets:				
Cash and investments	-	289,096	1,966,339	2,255,435
Total cash and investment assets - December 31	\$ 2,099,010	\$ 289,096	\$ 1,966,339	\$ 4,354,445
Cash and Investment Fund Balance - December 31				
Restricted for:				
Public safety	\$ -	\$ -	\$ 278,506	\$ 278,506
Highways and streets	-	-	496,888	496,888
Sanitation	-	-	29,775	29,775
Culture and recreation	-	-	168,830	168,830
Urban redevelopment and housing	-	289,096	-	289,096
Debt service	-	-	203,035	203,035
Capital outlay	-	-	297,556	297,556
Other purposes	-	-	491,749	491,749
Unrestricted	2,099,010	-	-	2,099,010
Total cash and investment fund balance - December 31	\$ 2,099,010	\$ 289,096	\$ 1,966,339	\$ 4,354,445

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
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Storm Water Utility	Totals
Operating receipts:					
Metered water receipts:					
Residential	\$ 1,109,948	\$ -	\$ -	\$ -	\$ 1,109,948
Commercial	637,066	-	-	-	637,066
Residential sales	-	-	6,564,452	-	6,564,452
Commercial and industrial sales	-	-	8,992,250	-	8,992,250
Public street and highway lighting	-	-	251,260	-	251,260
Fire protection receipts	187,463	-	-	-	187,463
Penalties	8,739	42,829	55,241	5,369	112,178
Flat rate receipts	-	111,578	-	345,265	456,843
Measured revenue:					
Residential	-	1,839,361	-	-	1,839,361
Commercial	-	1,529,218	-	-	1,529,218
Other	47,589	45,451	79,008	7	172,055
Total operating receipts	1,990,805	3,568,437	15,942,211	350,641	21,852,094
Operating disbursements:					
Equipment and capital improvements	351,966	697,920	993,594	22,011	2,065,491
Water treatment disbursements - operations and maintenance	729,762	-	-	-	729,762
Power production	-	-	2,626,051	-	2,626,051
Transmission and distribution	817,871	-	2,431,887	-	3,249,758
Collection system - operations and maintenance	-	701,846	-	123,637	825,483
Treatment and disposal disbursements - operations and maintenance	-	1,147,133	-	-	1,147,133
Other	31,142	-	215,554	-	246,696
Purchased power	-	-	9,559,608	-	9,559,608
Total operating disbursements	1,930,741	2,546,899	15,826,694	145,648	20,449,982
Excess of operating receipts over operating disbursements	60,064	1,021,538	115,517	204,993	1,402,112
Nonoperating receipts (disbursements):					
Interest and investment receipts	64,010	292,378	191,156	8,353	555,897
Miscellaneous receipts	4,915	41,021	28,337	53,984	128,257
Debt service of principal	(24,312)	(792,728)	-	-	(817,040)
Interest and investment disbursement	(577)	(430,156)	-	-	(430,733)
Total nonoperating receipts (disbursements)	44,036	(889,485)	219,493	62,337	(563,619)
Excess of receipts over disbursements and nonoperating receipts	104,100	132,053	335,010	267,330	838,493
Capital contributions	-	11,311	36,880	-	48,191
Transfers out	(59,734)	-	(381,078)	-	(440,812)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	44,366	143,364	(9,188)	267,330	445,872
Extraordinary item:					
Receipts from demutualization of insurance	28,918	19,374	60,623	-	108,915
Excess of receipts, contributions, extraordinary items and transfers in over disbursements and transfers out	73,284	162,738	51,435	267,330	554,787
Cash and investment fund balance - beginning	1,426,679	6,340,810	4,263,725	-	12,031,214
Cash and investment fund balance - ending	\$ 1,499,963	\$ 6,503,548	\$ 4,315,160	\$ 267,330	\$ 12,586,001
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 347,299	\$ 631,212	\$ 2,803,694	\$ 252,229	\$ 4,034,434
Restricted assets:					
Cash and investments	1,152,664	5,788,636	1,511,466	15,101	8,467,867
Cash with fiscal agent	-	83,700	-	-	83,700
Total cash and investment assets - December 31	\$ 1,499,963	\$ 6,503,548	\$ 4,315,160	\$ 267,330	\$ 12,586,001
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Debt service	\$ -	\$ 1,808,135	\$ -	\$ -	\$ 1,808,135
Other purposes	1,152,664	4,064,201	1,511,466	15,101	6,743,432
Unrestricted	347,299	631,212	2,803,694	252,229	4,034,434
Total cash and investment fund balance - December 31	\$ 1,499,963	\$ 6,503,548	\$ 4,315,160	\$ 267,330	\$ 12,586,001

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, 2006

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Employer	\$ 1,665,572	\$ -
Agency fund additions	-	7,522,351
Total additions	1,665,572	7,522,351
Deductions:		
Benefits	1,330,547	-
Administrative and general	5,412	-
Agency fund deductions	-	7,534,613
Total deductions	1,335,959	7,534,613
Excess (deficiency) of total additions over total deductions	329,613	(12,262)
Cash and investment fund balance - beginning	385,214	114,528
Cash and investment fund balance - ending	\$ 714,827	\$ 102,266

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, storm water management, 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. It is used for infrastructure, interest buy-downs, and other incentives to promote industrial job growth according to the City's capital improvement plan.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

The storm water utility fund accounts for the operation of the storm water collection system.

Additionally, the City reports the following fund types:

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

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, proprietary 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 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, while the fund financial statements for proprietary fund types would use the 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.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The City does not have any internal service funds.

D. 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. 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.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary 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.

4. 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, or (2) law through constitutional provisions or enabling legislation.
- 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 the same as in the government-wide statements.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, (2) operating grants and contributions, and (3) 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

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

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.
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 and Net Assets – Cash and Investment Basis.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Prior to the first required publication, 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, 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Transfer From	Transfer To	2006
General Fund	Other governmental	\$ 7,976
Other governmental	Other governmental	33,562
Water Utility	General Fund	59,734
Electric Utility	General Fund	381,078
Total		\$ 482,350

These disbursements were funded by available fund balances.

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.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, were as follows:

Transfer From	Transfer To	2006
General Fund	Other governmental	\$ 7,976
Other governmental	Other governmental	33,562
Water Utility	General Fund	59,734
Electric Utility	General Fund	381,078
Total		\$ 482,350

The City typically uses transfers for ongoing operating subsidies as provided by various statutory provisions.

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 - City

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 appropriated 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. The City makes payments to a third party administrator to cover claims, premiums and administrative costs of the program. Funds on hand at the end of the year are presented as cash with fiscal agent in the Statement of Cash Activities – Cash and Investment Basis.

Medical Benefits to Employees - Utilities

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees, dependents and retirees. 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 \$55,000 per year. Settled claims resulting from this risk did not exceed commercial insurance

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

coverage in the past three years. A premium is charged to each fund that accounts for medical benefits to employees. The total charge allocated to each fund is based on the number of enrollees who are paid from the fund in relation to the total number of enrollees. Provisions are also made for unexpected and unusual claims.

B. Holding Corporations

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 City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$323,000. Miami County has pledged a portion of their economic development income tax revenue to pay one-half of the lease payments. The City received \$209,678 from Miami County in 2006. At December 31, 2006, the City held \$76,855 to be applied to amounts receivable from Miami County in 2007.

The City has entered into a capital lease with 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 City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$91,500.

C. Overpayment Receivable

The City wire transferred a payment of \$257,855 to J.P. Morgan Chase Bank on January 30, 2006. This payment should have been made by the trustee for the Peru Municipal Facilities Corporation. The City received a refund of this amount on June 18, 2007.

D. 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 40 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 requires the Utility to 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 2006 and 2005:

	2006		2005	
	Megawatt Hours	Average Price	Megawatt Hours	Average Price
Power sold to IMPA	20,077	\$ 41.02	40,490	\$ 38.13
Power purchased from IMPA	265,021	50.67	277,354	45.44

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Major Customers

The Peru Utilities have two major customers who account for a significant portion of utility revenue. The customers and the percentage of revenue attributable to each for 2006 are as follows:

Customer	Water Utility	Wastewater Utility	Electric Utility
Con-Agra	2.0%	5.3%	13.0%
Miami County Correctional Facility	12.4%	12.2%	5.3%

F. Postemployment Benefits

In addition to the pension benefits described below, 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, 16 retirees meet these eligibility requirements. The City provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. Disbursements for postemployment benefits cannot be reasonably estimated.

The City Utilities provide postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City Utilities and are eligible for a full PERF pension. Currently, 21 retirees meet these eligibility requirements. The City Utilities provide 100% of these postemployment benefits except for a flat monthly premium charged to each retiree based on number of years of service. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, net disbursements of \$26,142 were recognized for post-employment benefits.

G. 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 current rate structure for Grissom Aeroplex customers was approved by the City Council on January 6, 2003.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

Electric Utility

The rate structure for the year 2006 was approved by the Utility Regulatory Commission on October 1, 1993.

On June 13, 2007, the Indiana Utility Regulatory Commission approved a 9.03% rate increase for the Electric Utility. This increase is to take effect in two phases with a 5.015% increase effective July 2, 2007, and the balance of the increase effective July 1, 2008.

Storm Water Utility

The current rate structure was approved by the City Council on June 7, 2004.

H. 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

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.

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 68,627	\$ 455,400	\$ 734,400	\$ 237,591
Interest on net pension obligation	(5,821)	126,100	273,800	(12,150)
Adjustment to annual required contribution	<u>6,633</u>	<u>(137,400)</u>	<u>(298,400)</u>	<u>13,846</u>
Annual pension cost	69,439	444,100	709,800	239,287
Contributions made	<u>67,280</u>	<u>403,507</u>	<u>466,515</u>	<u>227,295</u>
Increase in net pension obligation	2,159	40,593	243,285	11,992
Net pension obligation, beginning of year	<u>(80,285)</u>	<u>1,867,590</u>	<u>4,055,737</u>	<u>(167,588)</u>
Net pension obligation, end of year	<u>\$ (78,126)</u>	<u>\$ 1,908,183</u>	<u>\$ 4,299,022</u>	<u>\$ (155,596)</u>

	City PERF	1925 Police Officers' Pension	1937 Firefighters' Pension	Utility PERF
Contribution rates:				
City Plan members	6%	N/A	1,052%	6.75%
Actuarial valuation date	3%	N/A	6%	3%
Actuarial cost method	07-01-06	01-01-06	01-01-06	07-01-06
Amortization method	Entry age Level	Entry age Level	Entry age Level	Entry age 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

N/A = Not applicable, no covered payroll

CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

* 2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City PERF	06-30-04	\$ 59,591	116%	\$ (55,974)
	06-30-05	43,214	156%	(80,285)
	06-30-06	69,439	156%	(78,126)
1925 Police Officers' Pension Plan	12-31-03	612,100	85%	1,696,081
	12-31-04	574,800	70%	1,867,590
	12-31-05	444,100	91%	1,908,183
1937 Firefighters' Pension Plan	12-31-03	1,061,800	66%	3,407,852
	12-31-04	1,082,100	40%	4,055,737
	12-31-05	709,800	66%	4,299,022
Utility PERF	06-30-04	187,349	119%	(137,247)
	06-30-05	190,078	116%	(167,588)
	06-30-06	239,287	120%	(155,596)

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	27	37

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, 2006, 2005, and 2004, were \$435,038, \$415,516, and \$407,701, 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)
07-01-04	\$ 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%)
07-01-06	1,321,512	1,437,982	(116,470)	92%	1,107,336	(11%)

Public Employees' Retirement Fund - Utilities

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)
07-01-04	\$ 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%)
07-01-06	4,199,505	5,205,676	(1,006,171)	81%	3,584,261	(28%)

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)
01-01-01	\$ 297,475	\$ 7,191,600	\$ (6,894,125)	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%	*	*
01-01-05	366,113	5,744,600	(5,378,487)	6%	*	*
01-01-06	255,289	6,370,800	(6,115,511)	4%	*	*

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)
01-01-01	\$ 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	464,871	9,331,400	(8,866,529)	5%	192,500	(4,606%)
01-01-04	561,999	10,699,700	(10,137,701)	5%	132,800	(7,634%)
01-01-05	338,706	10,197,900	(9,859,194)	3%	102,600	(9,609%)
01-01-06	129,925	10,020,000	(9,890,075)	1%	69,800	(14,169%)

*Information not available

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

	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%
	12-31-04	660,300	61%	0%
	12-31-05	455,400	89%	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%
	12-31-04	1,254,000	35%	0%
	12-31-05	734,400	64%	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, 2006

	Motor Vehicle Highway	Local Road and Street	Park and Recreation	Law Enforcement Continuing Education	Aviation	Rainy Day
Receipts:						
Taxes	\$ 254,616	\$ -	\$ 157,462	\$ -	\$ 74,927	\$ -
Licenses and permits	-	-	-	3,450	-	-
Intergovernmental	499,468	55,212	14,996	-	7,105	-
Charges for services	-	-	209,730	3,015	-	-
Fines and forfeits	-	-	-	1,653	-	-
Other	36	-	1,426	1,314	5,154	-
Total receipts	754,120	55,212	383,614	9,432	87,186	-
Disbursements:						
General government	-	-	-	-	65,200	16,000
Public safety	-	-	-	2,732	-	-
Highways and streets	521,191	9,079	-	-	-	-
Culture and recreation	-	-	399,368	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Highways and streets	-	-	-	-	-	-
Total disbursements	521,191	9,079	399,368	2,732	65,200	16,000
Excess (deficiency) of receipts over disbursements	232,929	46,133	(15,754)	6,700	21,986	(16,000)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	16,252
Transfers out	(3,946)	-	-	-	-	-
Total other financing sources (uses)	(3,946)	-	-	-	-	16,252
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	228,983	46,133	(15,754)	6,700	21,986	252
Cash and investment fund balance - beginning	206,764	15,008	109,084	9,977	16,431	565
Cash and investment fund balance - ending	<u>\$ 435,747</u>	<u>\$ 61,141</u>	<u>\$ 93,330</u>	<u>\$ 16,677</u>	<u>\$ 38,417</u>	<u>\$ 817</u>
Cash and Investment Assets - December 31						
Restricted assets:						
Cash and investments	<u>\$ 435,747</u>	<u>\$ 61,141</u>	<u>\$ 93,330</u>	<u>\$ 16,677</u>	<u>\$ 38,417</u>	<u>\$ 817</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ 16,677	\$ -	\$ -
Highways and streets	435,747	61,141	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	93,330	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	-	38,417	817
Total cash and investment fund balance - December 31	<u>\$ 435,747</u>	<u>\$ 61,141</u>	<u>\$ 93,330</u>	<u>\$ 16,677</u>	<u>\$ 38,417</u>	<u>\$ 817</u>

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, 2006
 (Continued)

	Metro Arson	Parking Meter	Criminal Investigation	Park Nonreverting Operating	Riverfront Walkway	Unsafe Building
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	1,062	-	-	-	-
Intergovernmental	-	-	35,394	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	1,060	-	-	-	-
Other	3,268	-	3,752	-	-	40,000
Total receipts	3,268	2,122	39,146	-	-	40,000
Disbursements:						
General government	-	-	-	-	-	-
Public safety	3,175	-	45,345	-	-	33,018
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	3,080	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Highways and streets	-	-	-	-	-	-
Total disbursements	3,175	-	45,345	3,080	-	33,018
Excess (deficiency) of receipts over disbursements	93	2,122	(6,199)	(3,080)	-	6,982
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	93	2,122	(6,199)	(3,080)	-	6,982
Cash and investment fund balance - beginning	1,686	12,910	29,755	9,220	3,439	12,198
Cash and investment fund balance - ending	<u>\$ 1,779</u>	<u>\$ 15,032</u>	<u>\$ 23,556</u>	<u>\$ 6,140</u>	<u>\$ 3,439</u>	<u>\$ 19,180</u>
Cash and Investment Assets - December 31						
Restricted assets:						
Cash and investments	<u>\$ 1,779</u>	<u>\$ 15,032</u>	<u>\$ 23,556</u>	<u>\$ 6,140</u>	<u>\$ 3,439</u>	<u>\$ 19,180</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ 1,779	\$ 15,032	\$ 23,556	\$ -	\$ -	\$ 19,180
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	6,140	3,439	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 1,779</u>	<u>\$ 15,032</u>	<u>\$ 23,556</u>	<u>\$ 6,140</u>	<u>\$ 3,439</u>	<u>\$ 19,180</u>

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, 2006
 (Continued)

	Education Summit	IU Childseat	Airport Improvement	Golf Irrigation	Cumulative Capital Improvement	Park Nonreverting Capital
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	46,421	-
Charges for services	-	-	-	17,915	-	-
Fines and forfeits	-	-	-	-	-	-
Other	7,523	1,229	-	-	-	-
Total receipts	7,523	1,229	-	17,915	46,421	-
Disbursements:						
General government	7,260	-	-	39,178	-	-
Public safety	-	2,837	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Highways and streets	-	-	7,746	-	-	-
Total disbursements	7,260	2,837	7,746	39,178	-	-
Excess (deficiency) of receipts over disbursements	263	(1,608)	(7,746)	(21,263)	46,421	-
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	263	(1,608)	(7,746)	(21,263)	46,421	-
Cash and investment fund balance - beginning	6,234	1,624	7,746	87,184	148,980	1,211
Cash and investment fund balance - ending	<u>\$ 6,497</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 65,921</u>	<u>\$ 195,401</u>	<u>\$ 1,211</u>
<u>Cash and Investment Assets - December 31</u>						
Restricted assets:						
Cash and investments	<u>\$ 6,497</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 65,921</u>	<u>\$ 195,401</u>	<u>\$ 1,211</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Public safety	\$ -	\$ 16	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	65,921	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	195,401	1,211
Other purposes	6,497	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 6,497</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 65,921</u>	<u>\$ 195,401</u>	<u>\$ 1,211</u>

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, 2006
 (Continued)

	Special Street and Sanitation	Cumulative Building Equipment	Airport Taxiway Grant	Cable TV	Pretrial Deferral	Lease Rental Debt
Receipts:						
Taxes	\$ -	\$ 95,177	\$ -	\$ -	\$ -	\$ 13,788
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	18,529	687,355	-	-	1,283
Charges for services	-	-	-	19,456	147,598	-
Fines and forfeits	-	-	-	-	-	-
Other	15,433	50,020	-	-	-	9,140
Total receipts	15,433	163,726	687,355	19,456	147,598	24,211
Disbursements:						
General government	-	-	-	7,202	-	-
Public safety	-	-	-	-	144,056	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	40,000	-	-	-	-
Interest	-	51,500	-	-	-	-
Capital outlay:						
Highways and streets	42,893	9,500	736,535	-	-	-
Total disbursements	42,893	101,000	736,535	7,202	144,056	-
Excess (deficiency) of receipts over disbursements	(27,460)	62,726	(49,180)	12,254	3,542	24,211
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(16,252)
Total other financing sources (uses)	-	-	-	-	-	(16,252)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(27,460)	62,726	(49,180)	12,254	3,542	7,959
Cash and investment fund balance - beginning	57,235	3,248	84,150	55,189	198,724	(7,959)
Cash and investment fund balance - ending	<u>\$ 29,775</u>	<u>\$ 65,974</u>	<u>\$ 34,970</u>	<u>\$ 67,443</u>	<u>\$ 202,266</u>	<u>\$ -</u>
Cash and Investment Assets - December 31						
Restricted assets:						
Cash and investments	<u>\$ 29,775</u>	<u>\$ 65,974</u>	<u>\$ 34,970</u>	<u>\$ 67,443</u>	<u>\$ 202,266</u>	<u>\$ -</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 202,266	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	29,775	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	65,974	34,970	-	-	-
Other purposes	-	-	-	67,443	-	-
Total cash and investment fund balance - December 31	<u>\$ 29,775</u>	<u>\$ 65,974</u>	<u>\$ 34,970</u>	<u>\$ 67,443</u>	<u>\$ 202,266</u>	<u>\$ -</u>

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, 2006
 (Continued)

	Bond Proceeds Projects	Debt Service	Records Perpetuation	Levy Excess	Storm Water	Totals
Receipts:						
Taxes	\$ -	\$ 368,818	\$ -	\$ -	\$ -	\$ 964,788
Licenses and permits	-	-	-	-	-	4,512
Intergovernmental	-	34,835	-	-	-	1,400,598
Charges for services	-	-	8,416	-	-	406,130
Fines and forfeits	-	-	-	-	-	2,713
Other	2,040	121	-	-	-	140,456
Total receipts	2,040	403,774	8,416	-	-	2,919,197
Disbursements:						
General government	184,926	-	11,911	-	30,874	362,551
Public safety	-	-	-	-	-	231,163
Highways and streets	-	-	-	-	-	530,270
Culture and recreation	-	-	-	-	-	402,448
Debt service:						
Principal	-	180,000	-	-	-	220,000
Interest	-	87,799	-	-	-	139,299
Capital outlay:						
Highways and streets	186,681	-	-	-	-	983,355
Total disbursements	371,607	267,799	11,911	-	30,874	2,869,086
Excess (deficiency) of receipts over disbursements	(369,567)	135,975	(3,495)	-	(30,874)	50,111
Other financing sources (uses):						
Transfers in	-	-	-	25,286	-	41,538
Transfers out	-	(13,364)	-	-	-	(33,562)
Total other financing sources (uses)	-	(13,364)	-	25,286	-	7,976
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(369,567)	122,611	(3,495)	25,286	(30,874)	58,087
Cash and investment fund balance - beginning	708,283	80,424	18,068	-	30,874	1,908,252
Cash and investment fund balance - ending	<u>\$ 338,716</u>	<u>\$ 203,035</u>	<u>\$ 14,573</u>	<u>\$ 25,286</u>	<u>\$ -</u>	<u>\$ 1,966,339</u>
<u>Cash and Investment Assets - December 31</u>						
Restricted assets:						
Cash and investments	<u>\$ 338,716</u>	<u>\$ 203,035</u>	<u>\$ 14,573</u>	<u>\$ 25,286</u>	<u>\$ -</u>	<u>\$ 1,966,339</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 278,506
Highways and streets	-	-	-	-	-	496,888
Sanitation	-	-	-	-	-	29,775
Culture and recreation	-	-	-	-	-	168,830
Debt service	-	203,035	-	-	-	203,035
Capital outlay	-	-	-	-	-	297,556
Other purposes	338,716	-	14,573	25,286	-	491,749
Total cash and investment fund balance - December 31	<u>\$ 338,716</u>	<u>\$ 203,035</u>	<u>\$ 14,573</u>	<u>\$ 25,286</u>	<u>\$ -</u>	<u>\$ 1,966,339</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, 2006

	<u>Police Pension</u>	<u>Firefighter Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Employer	\$ 547,616	\$ 1,117,956	\$ 1,665,572
Deductions:			
Benefits	507,625	822,922	1,330,547
Administrative and general	<u>1,725</u>	<u>3,687</u>	<u>5,412</u>
Total deductions	<u>509,350</u>	<u>826,609</u>	<u>1,335,959</u>
Excess of total additions over total deductions	38,266	291,347	329,613
Cash and investment fund balance - beginning	<u>255,289</u>	<u>129,925</u>	<u>385,214</u>
Cash and investment fund balance - ending	<u>\$ 293,555</u>	<u>\$ 421,272</u>	<u>\$ 714,827</u>

CITY OF PERU
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2006

	<u>Court Cost Due County</u>	<u>Payroll</u>	<u>City Court</u>	<u>User Fee</u>	<u>Totals</u>
Additions:					
Agency fund additions	\$ 43,848	\$ 6,852,764	\$ 475,568	\$ 150,171	\$ 7,522,351
Deductions:					
Agency fund deductions	43,848	6,865,380	475,673	149,712	7,534,613
Excess (deficiency) of total additions over total deductions	-	(12,616)	(105)	459	(12,262)
Cash and investment fund balance - beginning	-	91,813	15,318	7,397	114,528
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 79,197</u>	<u>\$ 15,213</u>	<u>\$ 7,856</u>	<u>\$ 102,266</u>

CITY OF PERU
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2006

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 711,448
Infrastructure	80,943,759
Buildings	8,089,625
Improvements other than buildings	3,905,094
Machinery and equipment	<u>7,211,746</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 100,861,672</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 68,266
Construction in progress	28,812
Capital assets being depreciated:	
Buildings	2,876,010
Improvements other than buildings	12,834,118
Machinery and equipment	1,850,779
Less accumulated depreciation	<u>(4,338,416)</u>
Total Water Utility capital assets	<u>13,319,569</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	305,307
Construction in progress	76,945
Capital assets being depreciated:	
Buildings	8,704,787
Improvements other than buildings	16,158,024
Machinery and equipment	9,852,459
Less accumulated depreciation	<u>(4,807,943)</u>
Total Wastewater Utility capital assets	<u>30,289,579</u>
Electric Utility:	
Capital assets, not being depreciated:	
Land	162,745
Construction in progress	6,857
Capital assets being depreciated:	
Buildings	3,827,970
Improvements other than buildings	39,436,830
Machinery and equipment	1,614,535
Less accumulated depreciation	<u>(28,547,158)</u>
Total Electric Utility capital assets	<u>16,501,779</u>
Storm Water Utility:	
Capital assets, not being depreciated:	
Construction in progress	22,011
Capital assets being depreciated:	
Improvements other than buildings	842,479
Less accumulated depreciation	<u>(16,850)</u>
Total Storm Water Utility capital assets	<u>847,640</u>
Total business-type activities capital assets	<u>\$ 60,958,567</u>

CITY OF PERU
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended December 3, 2006

	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Buildings	\$ 910,000	\$ -
Infrastructure	3,585,000	210,000
Machinery and Equipment	451,236	96,661
Transportation Equipment	126,988	80,954
Notes and loans payable	249,374	31,338
Bonds payable:		
General obligation bonds:		
Building, infrastructure and equipment	1,320,000	190,000
Total governmental activities long-term debt	\$ 6,642,598	\$ 608,953
Business-type Activities:		
Wastewater Utility:		
Notes and loans:		
Treatment plant project	\$ 14,356,692	\$ -

CITY OF PERU
OTHER REPORT

The annual report presented herein was prepared in addition to another official report prepared for the individual City office listed below:

Peru Utilities

CITY OF PERU
AUDIT RESULTS AND COMMENTS

OVERPAYMENT COLLECTIONS

As noted in the prior Reports B25796 and B27633, pension benefits of \$13,442 were paid 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 Employees' 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 28, 2006.

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>Excess Amount Expended</u>
Cumulative Building Equipment	\$ 11,000
Rainy Day	16,000
Law Enforcement Continuing Education	2,733

In addition, the City expended \$184,000 for self-insured health claims from the Bond Proceeds Projects Fund. The list of purposes for which the general obligation bonds were issued and the proceeds were appropriated did not include health claims.

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 under this article."

AVIATION COMMISSION CONTRACTS

The June 6, 2006, Aviation Commission minutes state that a contract was signed for the leasing of airport land for farming. The March 7, 2006, minutes indicate that the contract should include compensation for crop losses due to taxiway construction activity. A copy of the contract was not made available for audit.

The March 7, 2006, minutes state that a hangar lease extension was discussed and it was decided to double the rent for a period of 15 years. A lease agreement was not made available for audit.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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 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, 2006. 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 of America; 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, 2006.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

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

September 13, 2007

CITY OF PERU
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2006

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 City of Kokomo Edward Byrne Memorial Formula Grant Program	16.579		
		04-DB-021	\$ 15,675
		04-DB-055	<u>10,450</u>
Total for federal grantor agency			<u>26,125</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant Airport Improvement Program	20.106		
		AIP-3-18-0066-05	71,824
		AIP-3-18-0066-06	450,974
		AIP-3-18-0066-07	<u>25,331</u>
Total for program			<u>548,129</u>
Pass-Through Indiana Department of Transportation Highway Planning and Construction West Main Street	20.205		
		STP-9952 (028)	<u>170,126</u>
Pass-Through Indiana Criminal Justice Institute Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		
		OP-06-02-03-91	6,514
		154AL-06-03-03-16	13,200
		OP-07-01-01-27	3,375
		J8-2006-04-04-01	<u>9,269</u>
Total for program			<u>32,358</u>
Total for federal grantor agency			<u>750,613</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds Wastewater Treatment Plant	66.458		
		CS182155 01	<u>434,625</u>
Total federal awards expended			<u>\$ 1,211,363</u>

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

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? yes

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 September 13, 2007, with James Walker, Mayor; and Jackquan E. Gray, Clerk-Treasurer. The official response has been made a part of this report and may be found on page 45.

City of Peru
City Clerk Treasurer
Jackquan E. Gray

Phone: 765-472-2344

Fax: 765-472-1831

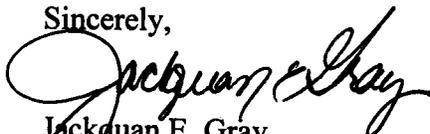
"OFFICIAL RESPONSE"

To: State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, Indiana
46204-2765

From: City of Peru
City Clerk Treasurer
35 S. Broadway
Peru, Indiana
46970

Within the City of Peru audit results and comments, there is a statement as follows, "the City expended \$184,000.00 for self insured health claims from the Bond Proceeds Project fund." It is the full intent of this financial administration to pay this amount in full back to this designated fund as soon as a tax draw is made to our local entity. The money was borrowed in late December on an emergency basis in order to alleviate charges for an overdraft on our health insurance account. During the fiscal year 2006, multiple large claims had to be paid in late December for reinsurance purposes. In order to fund those medical expenses, we had to make an emergency decision to fund this through whatever means possible. However, once again, this money will be re-paid in full to the Bond Proceeds Project fund as soon as funds become available.

Sincerely,


Jackquan E. Gray
City Clerk Treasurer