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STATE BOARD OF ACCOUNTS
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INDIANAPOLIS, INDIANA 46204-2769

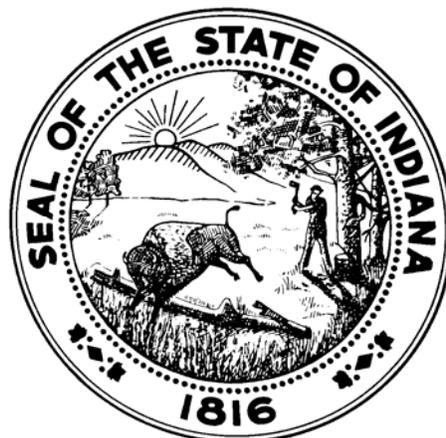
ANNUAL FINANCIAL REPORT

2006

PERU MUNICIPAL UTILITIES

CITY OF PERU

MIAMI COUNTY, INDIANA



FILED

09/28/2007

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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	Roger B. Merriman	01-01-06 to 12-31-07
Office Manager	Leah Aikman	01-01-06 to 12-31-07
Superintendent of Water Utility	Mike Dahlquist	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Mike Dahlquist	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
Storm Water Coordinator	Jamin Beisiegel	01-01-06 to 12-31-07
President of the Utility Service Board	J.H. Huber, III James E. Richter	01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Peru Municipal Utilities (Utilities), a department of the City of Peru, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Peru Municipal Utilities, City of Peru, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Peru as of December 31, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statement, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist 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 Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Peru Municipal Utilities, as of December 31, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

STATE BOARD OF ACCOUNTS

September 20, 2007

PERU MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2006

	Water Utility	Wastewater Utility	Storm Water Utility	Electric Utility
Assets				
Current assets:				
Cash and cash equivalents	\$ 347,299	\$ 631,212	\$ 252,229	\$ 2,803,694
Accounts receivable (net of allowance)	144,345	250,815	23,652	798,028
Inventories	115,869	-	-	341,539
Prepaid items	29,076	39,270	-	110,566
Other current assets	-	-	-	48,534
Total current assets	636,589	921,297	275,881	4,102,361
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	-	2,743,654	-	-
Bond and interest cash and investments	-	1,808,135	-	-
Customer deposits	37,625	33,975	-	140,450
Other	1,115,039	1,286,572	15,101	1,371,016
Total restricted assets	1,152,664	5,872,336	15,101	1,511,466
Capital assets:				
Land, improvements to land and construction in progress	97,078	382,252	22,011	169,602
Other capital assets (net of accumulated depreciation)	13,222,491	29,907,327	825,629	16,332,177
Total capital assets	13,319,569	30,289,579	847,640	16,501,779
Total noncurrent assets	14,472,233	36,161,915	862,741	18,013,245
Total assets	15,108,822	37,083,212	1,138,622	22,115,606
Liabilities				
Current liabilities:				
Accounts payable	94,227	178,072	1,984	1,978,987
Accrued payroll payable	7,641	7,919	958	28,449
Taxes payable	10,652	-	-	54,183
Current liabilities payable from restricted assets:				
Customer deposits	37,625	33,975	-	140,450
Retainage payable	-	83,700	-	-
Total current liabilities	150,145	303,666	2,942	2,202,069
Noncurrent liabilities:				
Intergovernmental loans	-	14,356,692	-	-
Compensated absences	28,820	25,770	497	91,708
Total noncurrent liabilities	28,820	14,382,462	497	91,708
Total liabilities	178,965	14,686,128	3,439	2,293,777
Net Assets				
Invested in capital assets, net of related debt	13,319,569	15,932,887	847,640	16,501,779
Restricted for debt service	-	1,808,135	-	-
Restricted for other	1,115,039	4,030,226	15,101	1,371,016
Unrestricted	495,249	625,836	272,442	1,949,034
Total net assets	\$ 14,929,857	\$ 22,397,084	\$ 1,135,183	\$ 19,821,829

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

PERU MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Storm Water Utility	Electric Utility
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,097,683	\$ -	\$ -	\$ -
Commercial	630,027	-	-	-
Residential sales	-	-	-	6,584,428
Commercial and industrial sales	-	-	-	9,019,615
Public street and highway lighting	-	-	-	252,025
Fire protection revenue	185,392	-	-	-
Penalties	8,642	42,487	5,731	55,409
Flat rate revenues	-	110,686	368,554	-
Measured revenue:				
Residential	-	1,824,663	-	-
Commercial	-	1,516,999	-	-
Other	47,063	45,088	8	79,248
Total operating revenues	<u>1,968,807</u>	<u>3,539,923</u>	<u>374,293</u>	<u>15,990,725</u>
Operating expenses:				
Water treatment expense - operations and maintenance	715,872	-	-	-
Power production	-	-	-	2,580,126
Transmission and distribution	802,306	-	-	2,389,357
Collection system - operations and maintenance	-	697,300	127,076	-
Treatment and disposal - operations and maintenance	-	1,139,699	-	-
Depreciation and amortization	284,523	706,869	16,850	1,377,490
Other	30,549	-	-	211,784
Purchased power	-	-	-	9,559,608
Total operating expenses	<u>1,833,250</u>	<u>2,543,868</u>	<u>143,926</u>	<u>16,118,365</u>
Operating income (loss)	<u>135,557</u>	<u>996,055</u>	<u>230,367</u>	<u>(127,640)</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	64,010	292,378	8,353	191,156
Miscellaneous revenue	4,915	41,021	53,984	28,337
Interest expense	(472)	(430,130)	-	-
Total nonoperating revenues (expenses)	<u>68,453</u>	<u>(96,731)</u>	<u>62,337</u>	<u>219,493</u>
Income before contributions, transfers and extraordinary items	204,010	899,324	292,704	91,853
Capital contributions	-	11,311	842,479	36,880
Transfers out	(59,734)	-	-	(381,078)
Income (loss) before extraordinary items	144,276	910,635	1,135,183	(252,345)
Extraordinary item:				
Gain on demutualization of insurance	28,918	19,374	-	60,623
Change in net assets	173,194	930,009	1,135,183	(191,722)
Total net assets - beginning	<u>14,756,663</u>	<u>21,467,075</u>	<u>-</u>	<u>20,013,551</u>
Total net assets - ending	<u>\$ 14,929,857</u>	<u>\$ 22,397,084</u>	<u>\$ 1,135,183</u>	<u>\$ 19,821,829</u>

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

PERU MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Storm Water Utility	Electric Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,945,502	\$ 3,524,744	\$ 350,633	\$ 15,871,653
Payments to suppliers and contractors	(526,845)	(844,519)	(39,668)	(12,112,267)
Payments to employees	(1,053,690)	(1,005,855)	(83,969)	(2,681,358)
Other receipts	47,063	45,088	8	31,083
Net cash provided by operating activities	<u>412,030</u>	<u>1,719,458</u>	<u>227,004</u>	<u>1,109,111</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(59,734)	-	-	(381,078)
Miscellaneous nonoperating revenue	4,915	41,021	53,984	28,337
Receipts from demutualization of insurance	28,918	19,374	-	60,623
Net cash provided (used) by noncapital financing activities	<u>(25,901)</u>	<u>60,395</u>	<u>53,984</u>	<u>(292,118)</u>
Cash flows from capital and related financing activities:				
Capital contributions	-	11,311	-	36,880
Acquisition and construction of capital assets	(351,966)	(697,920)	(22,011)	(993,594)
Principal paid on capital debt	(24,312)	(792,728)	-	-
Interest paid on capital debt	(577)	(430,156)	-	-
Net cash used by capital and related financing activities	<u>(376,855)</u>	<u>(1,909,493)</u>	<u>(22,011)</u>	<u>(956,714)</u>
Cash flows from investing activities:				
Interest received	64,010	292,378	8,353	191,156
Net increase in cash and cash equivalents	73,284	162,738	267,330	51,435
Cash and cash equivalents, January 1	1,426,679	6,340,810	-	4,263,725
Cash and cash equivalents, December 31	<u>\$ 1,499,963</u>	<u>\$ 6,503,548</u>	<u>\$ 267,330</u>	<u>\$ 4,315,160</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 135,557	\$ 996,055	\$ 230,367	\$ (127,640)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	284,523	706,869	16,850	1,377,490
(Increase) decrease in assets:				
Accounts receivable	21,998	28,514	(23,652)	(48,514)
Inventories	(11,147)	-	-	32,048
Prepaid items	(1,787)	(7,264)	-	(29,111)
Other current assets	-	-	-	(48,165)
Increase (decrease) in liabilities:				
Accounts payable	(4,908)	16,613	1,984	(23,199)
Accrued payroll payable	(19,102)	(22,373)	958	(46,818)
Taxes payable	3,850	-	-	7,855
Compensated absence payable	1,286	(351)	497	6,475
Customer deposits	1,760	1,395	-	8,690
Total adjustments	<u>276,473</u>	<u>723,403</u>	<u>(3,363)</u>	<u>1,236,751</u>
Net cash provided by operating activities	<u>\$ 412,030</u>	<u>\$ 1,719,458</u>	<u>\$ 227,004</u>	<u>\$ 1,109,111</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets from government	\$ -	\$ -	\$ 842,479	\$ -
Acquisition of capital assets through loan payable	-	962,986	-	-
Purchase of equipment on account	28,623	125,381	-	15,996
Purchase of capital assets through retainage payable	-	(470,789)	-	-
Construction in progress transfers to capital assets	28,391	148,950	-	-

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

2. Inventories and Prepaid Items

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment and other accumulated resources, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable debt covenants or state statutes.

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 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 business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

5. Compensated Absences

- a. Sick Leave – 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 leaving employment, an employee will receive payment for accumulated sick leave at 20%. All employees who have accumulated the maximum of 47 days and do not use any sick days throughout an entire quarter have the option to receive 1 day's pay paid into their deferred compensation accounts at year end, or to have 1 day's additional severance pay upon retirement or resignation.

PERU MUNICIPAL UTILITIES
CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

- b. Vacation Leave – 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 – 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.

Sick leave is accrued when incurred at 20% of related wages and severance pay is accrued when earned.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

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

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 68,266	\$ -	\$ -	\$ 68,266
Construction in progress	<u>28,391</u>	<u>28,812</u>	<u>28,391</u>	<u>28,812</u>
 Total capital assets, not being depreciated	 <u>96,657</u>	 <u>28,812</u>	 <u>28,391</u>	 <u>97,078</u>
Capital assets, being depreciated:				
Buildings	2,836,454	39,556	-	2,876,010
Improvements other than buildings	12,645,375	205,534	16,791	12,834,118
Machinery and equipment	<u>1,761,916</u>	<u>135,078</u>	<u>46,215</u>	<u>1,850,779</u>
 Totals	 <u>17,243,745</u>	 <u>380,168</u>	 <u>63,006</u>	 <u>17,560,907</u>

PERU MUNICIPAL UTILITIES
CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	525,614	42,547	-	568,161
Improvements other than buildings	2,902,233	189,680	16,791	3,075,122
Machinery and equipment	<u>689,052</u>	<u>52,296</u>	<u>46,215</u>	<u>695,133</u>
 Totals	 <u>4,116,899</u>	 <u>284,523</u>	 <u>63,006</u>	 <u>4,338,416</u>
 Total capital assets, being depreciated, net	 <u>13,126,846</u>	 <u>95,645</u>	 <u>-</u>	 <u>13,222,491</u>
 Total capital assets, net	 <u>\$ 13,223,503</u>	 <u>\$ 124,457</u>	 <u>\$ 28,391</u>	 <u>\$ 13,319,569</u>
 Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 305,132	\$ 175	\$ -	\$ 305,307
Construction in progress	<u>148,950</u>	<u>76,945</u>	<u>148,950</u>	<u>76,945</u>
 Total capital assets, not being depreciated	 <u>454,082</u>	 <u>77,120</u>	 <u>148,950</u>	 <u>382,252</u>
 Capital assets, being depreciated:				
Buildings	8,503,093	201,901	207	8,704,787
Improvements other than buildings	15,178,634	984,001	4,611	16,158,024
Machinery and equipment	<u>9,686,000</u>	<u>201,426</u>	<u>34,967</u>	<u>9,852,459</u>
 Totals	 <u>33,367,727</u>	 <u>1,387,328</u>	 <u>39,785</u>	 <u>34,715,270</u>
 Less accumulated depreciation for:				
Buildings	74,989	170,062	207	244,844
Improvements other than buildings	3,009,778	293,026	4,611	3,298,193
Machinery and equipment	<u>1,056,092</u>	<u>243,781</u>	<u>34,967</u>	<u>1,264,906</u>
 Totals	 <u>4,140,859</u>	 <u>706,869</u>	 <u>39,785</u>	 <u>4,807,943</u>
 Total capital assets, being depreciated, net	 <u>29,226,868</u>	 <u>680,459</u>	 <u>-</u>	 <u>29,907,327</u>
 Total capital assets, net	 <u>\$ 29,680,950</u>	 <u>\$ 757,579</u>	 <u>\$ 148,950</u>	 <u>\$ 30,289,579</u>

PERU MUNICIPAL UTILITIES
CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Storm Water Utility:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 22,011	\$ -	\$ 22,011
Capital assets, being depreciated:				
Improvements other than buildings	-	842,479	-	842,479
Less accumulated depreciation for:				
Improvements other than buildings	-	16,850	-	16,850
Total capital assets, being depreciated, net				
	-	825,629	-	825,629
Total capital assets, net	<u>\$ -</u>	<u>\$ 847,640</u>	<u>\$ -</u>	<u>\$ 847,640</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 160,445	\$ 2,300	\$ -	\$ 162,745
Construction in progress	-	6,857	-	6,857
Total capital assets, not being depreciated				
	<u>160,445</u>	<u>9,157</u>	<u>-</u>	<u>169,602</u>
Capital assets, being depreciated:				
Buildings	3,779,050	56,490	7,570	3,827,970
Improvements other than buildings	38,885,322	686,134	134,626	39,436,830
Machinery and equipment	<u>1,448,238</u>	<u>257,809</u>	<u>91,512</u>	<u>1,614,535</u>
Totals	<u>44,112,610</u>	<u>1,000,433</u>	<u>233,708</u>	<u>44,879,335</u>
Less accumulated depreciation for:				
Buildings	2,157,381	113,371	7,570	2,263,182
Improvements other than buildings	24,167,236	1,170,800	134,626	25,203,410
Machinery and equipment	<u>1,078,759</u>	<u>93,319</u>	<u>91,512</u>	<u>1,080,566</u>
Totals	<u>27,403,376</u>	<u>1,377,490</u>	<u>233,708</u>	<u>28,547,158</u>
Total capital assets, being depreciated, net				
	<u>16,709,234</u>	<u>(377,057)</u>	<u>-</u>	<u>16,332,177</u>
Total capital assets, net	<u>\$ 16,869,679</u>	<u>\$ (367,900)</u>	<u>\$ -</u>	<u>\$ 16,501,779</u>

PERU MUNICIPAL UTILITIES
CITY OF PERU
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed
Water Utility:			
High service pump replacement	\$ 35,000	\$ 28,812	\$ 6,188
Wastewater Utility:			
Grissom Pipe Creek headwell	65,000	64,893	107
Grissom facility upgrade	12,052	12,052	-
Storm Water Utility:			
Oakdale retention pond	25,200	22,011	3,189
Electric Utility:			
Unit 3 forced outage	240,000	5,214	234,786
West Main Eye Clinic	6,245	1,643	4,602
Totals	<u>\$ 383,497</u>	<u>\$ 134,625</u>	<u>\$ 248,872</u>

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2006, were as follows:

Transfer From	General Fund	Storm Water Utility	Totals
General Fund	\$ -	\$ 53,984	\$ 53,984
Water Utility	59,734	-	59,734
Electric Utility	381,078	-	381,078
Totals	<u>\$ 440,812</u>	<u>\$ 53,984</u>	<u>\$ 494,796</u>

The Utility typically uses transfers to fund ongoing operating subsidies.

E. Long-Term Liabilities

1. State Revolving Fund Loan

Under the terms of the state revolving fund loan, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which were set aside to finance the construction of a wastewater treatment plant and collection system upgrade. Funds are loaned to the Utility as

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construction costs are incurred. The 2000 loan established a maximum draw of \$18,665,000. As of December 31, 2006, the outstanding principal balance of the loan was \$14,356,692, and the amount left available was \$1,200,000. After the final drawdown on the wastewater project, the Utility has requested approval from the State to use the balance of the authorized loan amount for a storm water project that is now in the planning stages but is not yet funded. Annual debt service requirements for the loan will not be determined until the State has processed the Utility's request and the final drawdown has occurred.

2. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Loan payable	\$ 24,312	\$ -	\$ 24,312	\$ -	\$ -
Compensated absences	27,534	1,286	-	28,820	-
Total Water Utility long-term liabilities	<u>51,846</u>	<u>1,286</u>	<u>24,312</u>	<u>28,820</u>	<u>-</u>
Wastewater Utility:					
Loans payable	14,186,434	962,986	792,728	14,356,692	-
Compensated absences	26,121	-	351	25,770	-
Total Wastewater Utility long-term liabilities	<u>14,212,555</u>	<u>962,986</u>	<u>793,079</u>	<u>14,382,462</u>	<u>-</u>
Storm Water Utility:					
Compensated absences	-	497	-	497	-
Electric Utility:					
Compensated absences	85,233	6,475	-	91,708	-
Total long-term liabilities	<u>\$ 14,349,634</u>	<u>\$ 971,244</u>	<u>\$ 817,391</u>	<u>\$ 14,503,487</u>	<u>\$ -</u>

F. Restricted Assets

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

Water Utility:	
Customer deposits	\$ 37,625
Improvement reserve	<u>1,115,039</u>
Total Water Utility restricted assets	<u>1,152,664</u>

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Wastewater Utility:	
Customer deposits	33,975
Debt covenant funds:	
Bond and interest	562,605
Debt service reserve	1,245,530
Depreciation	2,743,654
Improvement reserve	<u>1,286,572</u>
Total Wastewater Utility restricted assets	<u>5,872,336</u>
Storm Water Utility:	
Improvement reserve	<u>15,101</u>
Electric Utility:	
Customer deposits	140,450
Improvement reserve	<u>1,371,016</u>
Total Electric Utility restricted assets	<u>1,511,466</u>
Total restricted assets	<u><u>\$ 8,551,567</u></u>

III. Other Information

A. Risk Management

The Utilities are 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 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 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.

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(Continued)

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Unpaid claims at year ended are included in accounts payable reported on the Statement of Net Assets.

Changes in the balance of claim liabilities during the past two years are as follows:

	2005	2006
Unpaid claims, beginning of fiscal year	\$ 103,918	\$ 306,073
Incurred claims and changes in estimates	857,240	768,596
Claim payments	655,085	823,361
Unpaid claims, end of fiscal year	\$ 306,073	\$ 251,308

B. Subsequent Events

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.

C. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities and are eligible for a full PERF pension. Currently, 21 retirees meet these eligibility requirements. The Utilities provide 100% of these postemployment benefits except for a flat monthly premium charged to each retiree based on the number of years of service. Expenditures for those postemployment benefits are recognized when funds are set aside to pay future claims for both currently employed and retired members of the plan. During the year ended December 31, 2006, expenditures of \$26,142 were recognized for postemployment benefits.

D. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission (IURC) on April 14, 1994. The Utility has 4,963 customers.

Rates for 1,154 additional 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.

2. Wastewater Utility

The current rate structure was approved by the City Council on April 10, 2000. The Utility has 5,004 customers. The rate structure for 1,152 additional customers located within the Grissom Aeroplex was approved by the City Council on January 6, 2003.

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3. Electric Utility

The rate structure for the year 2006 was approved by the Utility Regulatory Commission on October 1, 1993. As described above, the IURC approved a rate increase effective July 3, 2007.

4. Storm Water Utility

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

E. 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

F. Major Customers

The Peru Municipal 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%

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(Continued)

G. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, 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 Utility 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 Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures among the Utilities is not available.

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Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 237,591
Interest on net pension obligation	(12,150)
Adjustment to annual required contribution	13,846
Annual pension cost	239,287
Contributions made	227,295
Increase in net pension obligation	11,992
Net pension obligation, beginning of year	(167,588)
Net pension obligation, end of year	\$ (155,596)
Contribution rates:	
Utilities	6.75%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
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)

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Public Employees' Retirement Fund

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%)

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EXIT CONFERENCE

The contents of this report were discussed on September 20, 2007, with Roger B. Merriman, General Manager; Leah Aikman, Office Manager; Kevin Shives, Assistant Office Manager; and James E. Richter, President of the Utility Service Board. Our audit disclosed no material items that warrant comment at this time.