

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

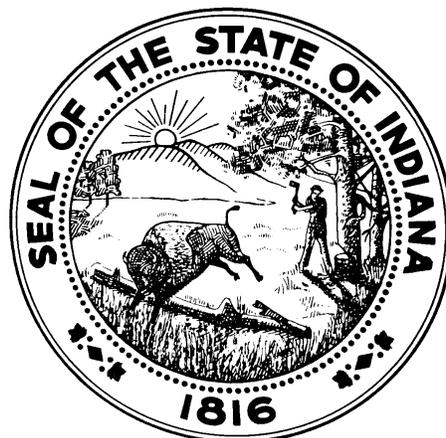
ANNUAL FINANCIAL REPORT

2007

PERU MUNICIPAL UTILITIES

CITY OF PERU

MIAMI COUNTY, INDIANA



FILED
09/30/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Statement of Net Assets	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-18
Supplementary Information: Schedule of Funding Progress	19
Exit Conference.....	20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jackquan E. Gray	01-01-04 to 12-31-11
Mayor	James R. Walker	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	James R. Walker	01-01-04 to 12-31-11
President of the Common Council	James R. Walker	01-01-04 to 12-31-11
General Manager	Roger B. Merriman	01-01-07 to 12-31-08
Office Manager	Leah Aikman	01-01-07 to 12-31-08
Superintendent of Water Utility	Mike Dahlquist	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	Mike Dahlquist	01-01-07 to 12-31-08
Superintendent of Electric Utility Transmission and Distribution	Joseph Wallace	01-01-07 to 12-31-08
Superintendent of Electric Utility Power Plant	Jeffrey Jernberg	01-01-07 to 12-31-08
Storm Water Coordinator	Jarmin Beisiegel	01-01-07 to 12-31-08
President of the Utility Service Board	James E. Richter	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Peru Municipal Utilities (Utilities), departments of the City of Peru, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities, 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, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the business-type activities for Utilities as of December 31, 2007, 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.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 12, 2008

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>	<u>Electric Utility</u>
Current assets:				
Cash and cash equivalents	\$ 463,530	\$ 852,990	\$ 202,973	\$ 2,566,698
Accounts receivable (net of allowance)	153,831	240,662	22,853	929,454
Inventories	127,702	-	-	381,704
Prepaid items	31,977	251,877	655	146,243
Other current assets	-	-	-	16,604
	<u>777,040</u>	<u>1,345,529</u>	<u>226,481</u>	<u>4,040,703</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Bond and interest cash and investments	-	1,769,454	-	-
Construction cash and investments	-	197,662	-	-
Customer deposits	37,480	34,185	-	150,285
Other	844,662	3,761,557	170,522	2,334,901
	<u>882,142</u>	<u>5,762,858</u>	<u>170,522</u>	<u>2,485,186</u>
Total restricted assets				
Capital assets:				
Land, improvements to land and construction in progress	68,323	428,008	134,597	180,249
Other capital assets (net of accumulated depreciation)	13,531,012	29,659,068	853,103	15,925,274
	<u>13,599,335</u>	<u>30,087,076</u>	<u>987,700</u>	<u>16,105,523</u>
Total capital assets				
Total noncurrent assets				
	<u>14,481,477</u>	<u>35,849,934</u>	<u>1,158,222</u>	<u>18,590,709</u>
Total assets				
	<u>15,258,517</u>	<u>37,195,463</u>	<u>1,384,703</u>	<u>22,631,412</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	68,001	41,287	57,241	2,407,858
Taxes payable	2,489	-	-	63,047
Accrued wages payable	15,037	12,634	1,724	39,957
Current liabilities payable from restricted assets:				
Customer deposits	37,480	34,185	-	150,285
Accrued interest payable	-	204,794	-	-
Retainage payable	-	75,003	-	-
	<u>123,007</u>	<u>367,903</u>	<u>58,965</u>	<u>2,661,147</u>
Total current liabilities				
Noncurrent liabilities:				
Intergovernmental loans	-	13,673,132	-	-
Compensated absences	28,041	23,209	1,922	99,807
	<u>28,041</u>	<u>13,696,341</u>	<u>1,922</u>	<u>99,807</u>
Total noncurrent liabilities				
Total liabilities				
	<u>151,048</u>	<u>14,064,244</u>	<u>60,887</u>	<u>2,760,954</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	13,599,335	16,413,944	987,700	16,105,523
Restricted for debt service	-	1,769,454	-	-
Restricted for other	844,662	3,959,219	170,522	2,334,901
Unrestricted	663,472	988,602	165,594	1,430,034
	<u>\$ 15,107,469</u>	<u>\$ 23,131,219</u>	<u>\$ 1,323,816</u>	<u>\$ 19,870,458</u>
Total net assets				

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Storm Water Utility	Electric Utility
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,084,664	\$ -	\$ -	\$ -
Commercial	661,844	-	-	-
Residential sales	-	-	-	7,459,382
Commercial and industrial sales	-	-	-	10,196,009
Public street and highway lighting	-	-	-	264,807
Fire protection revenue	180,853	-	-	-
Penalties	11,655	58,965	6,159	73,322
Flat rate revenues	-	108,993	365,801	-
Measured revenue:				
Residential	-	1,781,512	-	-
Commercial	-	1,549,425	-	-
Other	47,776	21,836	-	53,419
Total operating revenues	1,986,792	3,520,731	371,960	18,046,939
Operating expenses:				
Water treatment expense - operations and maintenance	409,520	-	-	-
Power production	-	-	-	2,416,954
Transmission and distribution	-	-	-	1,263,536
Water - operations and maintenance	398,682	-	-	-
Collection system - operations and maintenance	-	279,834	118,800	-
Treatment and disposal - operations and maintenance	-	892,248	-	-
Customer accounts	76,235	70,890	2,683	261,641
Sales expense	5,525	5,747	272	16,985
Administration and general	630,330	701,776	59,998	1,693,167
Depreciation and amortization	288,691	749,371	16,850	1,329,342
Other	19,586	-	-	234,041
Purchased power	-	-	-	10,668,474
Total operating expenses	1,828,569	2,699,866	198,603	17,884,140
Operating income	158,223	820,865	173,357	162,799
Nonoperating revenues (expenses):				
Interest and investment revenue	67,696	295,846	15,277	209,200
Miscellaneous revenue	11,426	30,284	-	42,434
Interest expense	-	(414,000)	-	-
Total nonoperating revenues (expenses)	79,122	(87,870)	15,277	251,634
Income before contributions and transfers	237,345	732,995	188,634	414,433
Capital contributions	-	1,139	-	49,983
Transfers out	(59,734)	-	-	(415,787)
Change in net assets	177,611	734,134	188,634	48,629
Total net assets - beginning	14,929,858	22,397,085	1,135,182	19,821,829
Total net assets - ending	\$ 15,107,469	\$ 23,131,219	\$ 1,323,816	\$ 19,870,458

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Storm Water Utility	Electric Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,929,385	\$ 3,509,258	\$ 372,759	\$ 17,871,929
Payments to suppliers and contractors	(674,427)	(1,244,845)	(72,334)	(13,394,868)
Payments to employees	(877,728)	(928,205)	(107,289)	(2,862,421)
Other receipts	47,776	21,836	-	85,349
Net cash provided by operating activities	<u>425,006</u>	<u>1,358,044</u>	<u>193,136</u>	<u>1,699,989</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(59,734)	-	-	(415,787)
Miscellaneous nonoperating revenue	11,426	30,284	-	42,434
Net cash provided (used) by noncapital financing activities	<u>(48,308)</u>	<u>30,284</u>	<u>-</u>	<u>(373,353)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(598,690)	(577,669)	(102,248)	(799,112)
Principal paid on capital debt	-	(785,000)	-	-
Interest paid on capital debt	-	(209,206)	-	-
Net cash used by capital and related financing activities	<u>(598,690)</u>	<u>(1,571,875)</u>	<u>(102,248)</u>	<u>(799,112)</u>
Cash flows from investing activities:				
Interest received	67,696	295,846	15,277	209,200
Net increase in cash and cash equivalents	(154,296)	112,299	106,165	736,724
Cash and cash equivalents, January 1	<u>1,499,968</u>	<u>6,503,549</u>	<u>267,330</u>	<u>4,315,160</u>
Cash and cash equivalents, December 31	<u>\$ 1,345,672</u>	<u>\$ 6,615,848</u>	<u>\$ 373,495</u>	<u>\$ 5,051,884</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	<u>\$ 158,223</u>	<u>\$ 820,865</u>	<u>\$ 173,357</u>	<u>\$ 162,799</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	288,691	749,371	16,850	1,329,342
(Increase) decrease in assets:				
Accounts receivable	(9,486)	10,153	799	(131,426)
Inventories	(11,833)	-	-	(40,165)
Prepaid items	(2,901)	(212,607)	(655)	(35,677)
Other current assets	-	-	-	31,930
Increase (decrease) in liabilities:				
Accounts payable	4,003	(12,102)	594	344,880
Accrued payroll payable	7,396	4,715	766	11,508
Taxes payable	(8,163)	-	-	8,864
Compensated absence payable	(779)	(2,561)	1,425	8,099
Customer deposits	(145)	210	-	9,835
Total adjustments	<u>266,783</u>	<u>537,179</u>	<u>19,779</u>	<u>1,537,190</u>
Net cash provided by operating activities	<u>\$ 425,006</u>	<u>\$ 1,358,044</u>	<u>\$ 193,136</u>	<u>\$ 1,699,989</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets from government	\$ -	\$ -	\$ -	\$ 49,983
Acquisition of capital assets through loan payable	-	101,440	-	-
Purchase of equipment on account	(30,233)	(135,110)	54,662	83,991
Purchase of capital assets through retainage payable	-	8,697	-	-
Construction in progress transfers to capital assets	28,812	70,225	-	40,287

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 activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The 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 47 sick days, earn personal leave at a 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, 2007, 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>28,812</u>	<u>528,669</u>	<u>557,424</u>	<u>57</u>
 Total capital assets, not being depreciated	 <u>97,078</u>	 <u>528,669</u>	 <u>557,424</u>	 <u>68,323</u>
Capital assets, being depreciated:				
Buildings	2,876,010	129,522	17,691	2,987,841
Improvements other than buildings	12,834,118	160,110	28,479	12,965,749
Machinery and equipment	<u>1,850,779</u>	<u>307,580</u>	<u>12,125</u>	<u>2,146,234</u>
 Totals	 <u>17,560,907</u>	 <u>597,212</u>	 <u>58,295</u>	 <u>18,099,824</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Capital assets, being depreciated: (continued)				
Less accumulated depreciation for:				
Buildings	568,161	43,140	17,691	593,610
Improvements other than buildings	3,075,122	192,511	28,479	3,239,154
Machinery and equipment	695,133	53,040	12,125	736,048
Totals	4,338,416	288,691	58,295	4,568,812
Total capital assets, being depreciated, net	13,222,491	308,521	-	13,531,012
Total capital assets, net	\$ 13,319,569	\$ 837,190	\$ 557,424	\$ 13,599,335
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 305,307	\$ -	\$ -	\$ 305,307
Construction in progress	76,945	501,475	455,719	122,701
Total capital assets, not being depreciated	382,252	501,475	455,719	428,008
Capital assets, being depreciated:				
Buildings	8,704,787	51,197	3,210	8,752,774
Improvements other than buildings	16,158,024	265,772	10,246	16,413,550
Machinery and equipment	9,852,459	181,274	30,792	10,002,941
Totals	34,715,270	498,243	44,248	35,169,265
Less accumulated depreciation for:				
Buildings	244,844	174,096	3,210	415,730
Improvements other than buildings	3,295,324	326,029	10,246	3,611,107
Machinery and equipment	1,264,906	249,246	30,792	1,483,360
Totals	4,805,074	749,371	44,248	5,510,197
Total capital assets, being depreciated, net	29,910,196	(251,128)	-	29,659,068
Total capital assets, net	\$ 30,292,448	\$ 250,347	\$ 455,719	\$ 30,087,076

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	\$ 162,395	\$ 49,809	\$ 134,597
Capital assets, being depreciated:				
Improvements other than buildings	842,479	44,324	-	886,803
Less accumulated depreciation for:				
Improvements other than buildings	<u>16,850</u>	<u>16,850</u>	<u>-</u>	<u>33,700</u>
Total capital assets, being depreciated, net	<u>825,629</u>	<u>27,474</u>	<u>-</u>	<u>853,103</u>
Total capital assets, net	<u>\$ 847,640</u>	<u>\$ 189,869</u>	<u>\$ 49,809</u>	<u>\$ 987,700</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 162,745	\$ -	\$ -	\$ 162,745
Construction in progress	<u>6,857</u>	<u>820,634</u>	<u>809,987</u>	<u>17,504</u>
Total capital assets, not being depreciated	<u>169,602</u>	<u>820,634</u>	<u>809,987</u>	<u>180,249</u>
Capital assets, being depreciated:				
Buildings	3,827,970	20,646	2,094	3,846,522
Improvements other than buildings	39,436,830	865,813	159,009	40,143,634
Machinery and equipment	<u>1,614,535</u>	<u>35,980</u>	<u>-</u>	<u>1,650,515</u>
Totals	<u>44,879,335</u>	<u>922,439</u>	<u>161,103</u>	<u>45,640,671</u>
Less accumulated depreciation for:				
Buildings	2,263,182	114,839	2,094	2,375,927
Improvements other than buildings	25,203,410	1,183,105	159,009	26,227,506
Machinery and equipment	<u>1,080,566</u>	<u>31,398</u>	<u>-</u>	<u>1,111,964</u>
Totals	<u>28,547,158</u>	<u>1,329,342</u>	<u>161,103</u>	<u>29,715,397</u>
Total capital assets, being depreciated, net	<u>16,332,177</u>	<u>(406,903)</u>	<u>-</u>	<u>15,925,274</u>
Total capital assets, net	<u>\$ 16,501,779</u>	<u>\$ 413,731</u>	<u>\$ 809,987</u>	<u>\$ 16,105,523</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Committed</u>
Water Utility:			
Exterior canopy	\$ 57	\$ 57	\$ -
Wastewater Utility:			
Grissom facility upgrade	471,000	122,701	348,299
Storm Water Utility:			
Oakdale project	145,700	134,597	11,103
Electric Utility:			
Turbo generator units	<u>17,504</u>	<u>17,504</u>	<u>-</u>
Totals	<u>\$ 634,261</u>	<u>\$ 274,859</u>	<u>\$ 359,402</u>

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2007, were as follows:

<u>Transfer From</u>	<u>Transfer To General Fund</u>
Water Utility	\$ 59,734
Electric Utility	<u>415,786</u>
Total	<u>\$ 475,520</u>

The Utilities typically use 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 Wastewater Utility as construction costs are incurred. The 2000 loan established a maximum draw of \$18,665,000. As of December 31, 2007, the outstanding principal balance of the loan was

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

\$13,673,132, and the amount left available was \$1,250,465. 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, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Water Utility:				
Compensated absences	\$ 28,820	\$ 3,604	\$ 4,383	\$ 28,041
Wastewater Utility:				
Loans payable	14,356,692	101,440	785,000	13,673,132
Compensated absences	<u>25,770</u>	<u>1,194</u>	<u>3,755</u>	<u>23,209</u>
Total Wastewater long-term liabilities	<u>14,382,462</u>	<u>102,634</u>	<u>788,755</u>	<u>13,696,341</u>
Storm Water Utility:				
Compensated absences	<u>497</u>	<u>1,425</u>	<u>-</u>	<u>1,922</u>
Electric Utility:				
Compensated absences	<u>91,708</u>	<u>14,877</u>	<u>6,778</u>	<u>99,807</u>
Total long-term liabilities	<u>\$ 14,503,487</u>	<u>\$ 122,540</u>	<u>\$ 799,916</u>	<u>\$ 13,826,111</u>

F. Restricted Assets

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

Water Utility:	
Customer deposits	\$ 37,480
Improvement reserve	<u>844,662</u>
Total Water Utility restricted assets	<u>882,142</u>
Wastewater Utility:	
Customer deposits	34,185
Cash with fiscal agent - construction escrow	75,003
Debt covenant funds:	
Bond and interest	523,924
Debt service reserve	1,245,530
Improvement reserve	<u>3,884,216</u>
Total Wastewater Utility restricted assets	<u>5,762,858</u>

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

Storm Water Utility:	
Improvement reserve	170,522
Electric Utility:	
Customer deposits	150,285
Improvement reserve	2,334,901
Total Electric Utility restricted assets	2,485,186
Total restricted assets	\$ 9,300,708

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 3 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.

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 end are included in accounts payable reports on the Statement of Net Assets.

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

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

	2006	2007
Unpaid claims, beginning of fiscal year	\$ 306,073	\$ 251,308
Incurred claims and changes in estimates	768,596	402,199
Claim payments	823,361	483,118
Unpaid claims, end of fiscal year	\$ 251,308	\$ 170,389

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 post-employment 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, 2007, expenditures of \$37,239 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 4,921 customers.

Rates for 1,096 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 4,976 customers. The rate structure for 1,093 additional customers located within the Grissom Aeroplex was approved by the City Council on January 6, 2003.

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.

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

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 forty municipalities in Indiana. IMPA purchases power from private generating sources and from four municipal power generating stations, one of which is owned by the Peru Electric Utility.

A contractual agreement between IMPA and the Peru Electric Utility 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 2007:

	2006		2007	
	Megawatt Hours	Average Price	Megawatt Hours	Average Price
Power sold to IMPA	20,077	\$ 41.02	36,754	\$ 42.01
Power purchased from IMPA	265,021	50.67	273,681	50.91

F. 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 2007 are as follows:

Customer	Water Utility	Wastewater Utility	Electric Utility
Con-Agra	2.0%	5.4%	14.2%
Miami County Correctional Facility	12.4%	12.1%	5.7%

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

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

and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities 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 between the City and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 274,463
Interest on net pension obligation	(11,281)
Adjustment to annual required contribution	12,855
Annual pension cost	276,037
Contributions made	244,272
Increase in net pension obligation	31,765
Net pension obligation, beginning of year	(155,596)
Net pension obligation, end of year	\$ (123,831)

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

	PERF
Contribution rates:	
Utilities	6.75%
Plan members	3%
Actuarial valuation date	07-01-07
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	06-30-05	\$ 190,078	116%	\$ (167,588)
	06-30-06	239,287	95%	(155,596)
	06-30-07	276,037	88%	(123,831)

PERU MUNICIPAL UTILITIES
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

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)
07-01-05	\$ 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%)
07-01-07	4,865,189	5,686,142	(820,953)	86%	3,721,343	(22%)

PERU MUNICIPAL UTILITIES
CITY OF PERU
EXIT CONFERENCE

The contents of this report were discussed on August 12, 2008, with Roger B. Merriman, General Manager; and Leah Aikman, Office Manager. Our audit disclosed no material items that warrant comment at this time.