

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

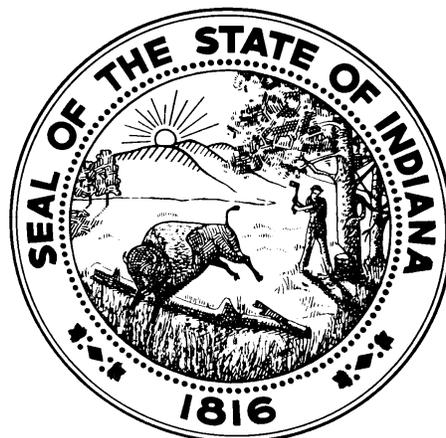
ANNUAL FINANCIAL REPORT

2008

PERU MUNICIPAL UTILITIES

CITY OF PERU

MIAMI COUNTY, INDIANA



FILED
10/29/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jackquan E. Gray	01-01-08 to 12-31-11
Mayor	James R. Walker	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	James R. Walker	01-01-08 to 12-31-11
President of the Common Council	James R. Walker	01-01-08 to 12-31-11
General Manager	Roger B. Merriman	01-01-08 to 12-31-09
Office Manager	Leah Aikman	01-01-08 to 12-31-09
Superintendent of Water Utility	Mike Dahlquist	01-01-08 to 12-31-09
Superintendent of Wastewater Utility	Mike Dahlquist	01-01-08 to 12-31-09
Superintendent of Electric Utility Transmission and Distribution	Joseph Wallace Vacant Curtis Bankston	01-01-08 to 08-08-08 08-09-08 to 11-12-08 11-13-08 to 12-31-09
Superintendent of Electric Utility Power Plant	Jeffrey Jernberg	01-01-08 to 12-31-09
Storm Water Coordinator	Jamin Beisiegel	01-01-08 to 12-31-09
President of the Utility Service Board	James E. Richter Stanley Akers	01-01-08 to 12-31-08 01-01-09 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2008. 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, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities for the Utilities, as of December 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

STATE BOARD OF ACCOUNTS

September 17, 2009

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF NET ASSETS
December 31, 2008

	2008			
	Electric Utility	Water Utility	Wastewater Utility	Storm Water Utility
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,537,755	\$ 430,860	\$ 1,122,968	\$ 326,420
Accounts receivable (net of allowance)	954,012	120,856	202,580	22,300
Other current assets	195,294	-	-	-
Inventories	520,546	142,244	-	-
Prepaid items	155,118	21,998	15,310	450
Total current assets	5,362,725	715,958	1,340,858	349,170
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	1,869,782	736,479	2,989,230	2,771
Bond and interest cash and investments	-	-	1,678,280	-
Construction cash and investments	-	-	289,143	-
Customer deposits	161,650	44,805	41,795	-
Other	295,174	-	-	-
Retainage	-	-	76,223	-
Total restricted assets	2,326,606	781,284	5,074,671	2,771
Capital assets:				
Land, improvements to land and construction in progress	282,901	129,387	769,762	214,788
Other capital assets (net of accumulated depreciation)	16,516,699	13,529,742	29,854,309	931,332
Total capital assets	16,799,600	13,659,129	30,624,071	1,146,120
Total noncurrent assets	19,126,206	14,440,413	35,698,742	1,148,891
Total assets	24,488,931	15,156,371	37,039,600	1,498,061
Liabilities				
Current liabilities:				
Accounts payable	2,681,536	65,649	358,651	4,175
Accrued payroll payable	30,663	9,645	8,748	1,119
Taxes payable	90,378	8,346	-	-
Other current liabilities	294,674	-	-	-
Current liabilities payable from restricted assets:				
Customer deposits	161,650	44,805	41,795	-
Retainage payable	-	-	76,223	-
Total current liabilities	3,258,901	128,445	485,417	5,294
Noncurrent liabilities:				
Intergovernmental loans	-	-	12,865,532	-
Compensated absences	107,536	30,283	23,743	2,314
Total noncurrent liabilities	107,536	30,283	12,889,275	2,314
Total liabilities	3,366,437	158,728	13,374,692	7,608
Net Assets				
Invested in capital assets, net of related debt	16,799,600	13,659,129	17,758,540	1,146,119
Restricted for debt service	-	-	1,678,280	-
Restricted for other	2,164,956	736,479	3,354,596	2,771
Unrestricted	2,157,938	602,035	873,492	341,563
Total net assets	\$ 21,122,494	\$ 14,997,643	\$ 23,664,908	\$ 1,490,453

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	2008			
	Electric Utility	Water Utility	Wastewater Utility	Storm Water Utility
Operating revenues:				
Metered water revenue:				
Residential	\$ -	\$ 1,058,837	\$ -	\$ -
Commercial and industrial	-	701,358	-	-
Residential sales	8,426,469	-	1,776,442	212,400
Commercial and industrial sales	11,896,453	-	1,531,661	2,700
Public street and highway lighting	170,422	-	-	148,932
Fire protection revenue	-	188,715	-	-
Penalties	85,022	11,734	60,620	6,190
Flat rate revenues	-	-	107,676	-
Other	111,391	5,654	122,554	-
Total operating revenues	<u>20,689,757</u>	<u>1,966,298</u>	<u>3,598,953</u>	<u>370,222</u>
Operating expenses:				
Water treatment expense - operations and maintenance	-	130,013	-	-
Power production	88,678	-	-	-
Transmission and distribution	213,440	-	-	-
Water distribution - operations and maintenance	-	98,563	-	-
Collection system - operations and maintenance	-	-	66,146	36,714
Treatment and disposal - operations and maintenance	-	-	38,074	-
Sales expense	5,798	1,885	3,408	1,101
Administration and general	304,076	90,861	101,447	7,706
Depreciation expense	1,368,936	296,776	755,582	17,736
Insurance claims and premiums	197,107	71,332	88,134	688
Other	259,872	29,252	-	-
Salaries and wages	2,348,097	853,074	768,980	103,406
Employee pensions and benefits	796,402	260,249	268,921	36,285
Purchased water	-	-	31,374	-
Purchased power	10,648,227	53,362	309,079	-
Sludge removal	-	-	59,736	-
Fuel for power production	2,126,294	-	-	-
Chemicals	55,776	21,140	-	-
Materials and supplies	355,823	89,730	265,973	4,090
Contractual services	157,623	-	-	-
Transportation expenses	82,822	40,621	40,906	1,878
Regulatory commission expenses	35,401	-	-	-
Bad debt expense	51,084	16,632	1,747	-
Total operating expenses	<u>19,095,456</u>	<u>2,053,490</u>	<u>2,799,507</u>	<u>209,604</u>
Operating income (loss)	<u>1,594,301</u>	<u>(87,192)</u>	<u>799,446</u>	<u>160,618</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	91,713	21,379	103,725	6,019
Miscellaneous revenue	14,607	13,030	39,019	-
Interest expense	-	-	(415,000)	-
Total nonoperating revenues (expenses)	<u>106,320</u>	<u>34,409</u>	<u>(272,256)</u>	<u>6,019</u>
Income (loss) before contributions and transfers	1,700,621	(52,783)	527,190	166,637
Capital contributions	1,910	2,691	6,499	-
Transfers to City	(450,495)	(59,734)	-	-
Change in net assets	1,252,036	(109,826)	533,689	166,637
Total net assets - beginning	<u>19,870,458</u>	<u>15,107,469</u>	<u>23,131,219</u>	<u>1,323,816</u>
Total net assets - ending	<u>\$ 21,122,494</u>	<u>\$ 14,997,643</u>	<u>\$ 23,664,908</u>	<u>\$ 1,490,453</u>

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2008

	2008			
	Electric Utility	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 20,663,792	\$ 1,999,164	\$ 3,636,882	\$ 370,775
Payments to suppliers and contractors	(14,510,169)	(783,651)	(881,649)	(131,093)
Payments to employees	(2,417,168)	(887,697)	(784,879)	(106,846)
Other payments	(594,640)	(92,227)	(262,293)	(7,209)
Other receipts	-	9,978	236,566	205
Net cash provided by operating activities	<u>3,141,815</u>	<u>245,567</u>	<u>1,944,627</u>	<u>125,832</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(450,495)	(59,734)	(1,000,000)	-
Miscellaneous nonoperating revenue	14,608	13,030	39,019	-
Transfers from other funds	-	-	1,000,000	-
Net cash provided (used) by noncapital financing activities	<u>(435,887)</u>	<u>(46,704)</u>	<u>39,019</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Capital contributions	1,910	2,798	8,378	-
Acquisition and construction of capital assets	(1,988,999)	(356,568)	(1,351,444)	(176,155)
Principal paid on capital debt	-	-	(810,000)	-
Interest paid on capital debt	-	-	(415,000)	-
Proceeds from sales of capital assets	1,925	-	62,486	-
Net cash used by capital and related financing activities	<u>(1,985,164)</u>	<u>(353,770)</u>	<u>(2,505,580)</u>	<u>(176,155)</u>
Cash flows from investing activities:				
Interest received	91,713	21,379	103,725	6,019
Net increase (decrease) in cash and cash equivalents	812,477	(133,528)	(418,209)	(44,304)
Cash and cash equivalents, January 1	<u>5,051,884</u>	<u>1,345,672</u>	<u>6,615,848</u>	<u>373,495</u>
Cash and cash equivalents, December 31	<u>\$ 5,864,361</u>	<u>\$ 1,212,144</u>	<u>\$ 6,197,639</u>	<u>\$ 329,191</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,594,301	\$ (87,192)	\$ 799,446	\$ 160,618
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,368,936	296,776	755,582	17,736
(Increase) decrease in assets:				
Accounts receivable	(25,966)	32,866	36,202	554
Other current assets	(253,221)	-	-	-
Inventories	(138,843)	(14,542)	-	-
Prepaid items	(8,875)	9,979	236,567	205
Increase (decrease) in liabilities:				
Accounts payable	564,293	(3,575)	111,037	(53,154)
Accrued payroll payable	106	(1,773)	(2,072)	-
Taxes payable	27,331	5,857	-	-
Compensated absence payable	2,388	(154)	255	(127)
Customer deposits	11,365	7,325	7,610	-
Total adjustments	<u>1,547,514</u>	<u>332,759</u>	<u>1,145,181</u>	<u>(34,786)</u>
Net cash provided by operating activities	<u>\$ 3,141,815</u>	<u>\$ 245,567</u>	<u>\$ 1,944,627</u>	<u>\$ 125,832</u>
Noncash investing, capital and financing activities:				
Borrowing under state revolving loan fund	\$ -	\$ -	\$ 2,400	\$ -
Purchase of equipment on account	-	-	290,000	-
Capital asset trade-ins	91,441	-	14,989	-

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 of governmental funds 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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 – Utilities 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 – Utilities 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 IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, 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	\$ 32,942	\$ -	\$ 101,208
Construction in progress	<u>57</u>	<u>415,602</u>	<u>387,480</u>	<u>28,179</u>
 Total capital assets, not being depreciated	 <u>68,323</u>	 <u>448,544</u>	 <u>387,480</u>	 <u>129,387</u>
Capital assets, being depreciated:				
Buildings	2,987,841	31,635	20,412	2,999,064
Improvement other than buildings	12,965,749	54,615	-	13,020,364
Machinery and equipment	<u>2,146,234</u>	<u>209,258</u>	<u>9,666</u>	<u>2,345,826</u>
 Totals	 <u>18,099,824</u>	 <u>295,508</u>	 <u>30,078</u>	 <u>18,365,254</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	593,610	44,818	20,412	618,016
Improvement other than buildings	3,239,156	194,487	-	3,433,643
Machinery and equipment	<u>736,048</u>	<u>57,471</u>	<u>9,666</u>	<u>783,853</u>
 Totals	 <u>4,568,814</u>	 <u>296,776</u>	 <u>30,078</u>	 <u>4,835,512</u>
 Total capital assets, being depreciated, net	 <u>13,531,010</u>	 <u>(1,268)</u>	 <u>-</u>	 <u>13,529,742</u>
 Total capital assets, net	 <u>\$ 13,599,333</u>	 <u>\$ 447,276</u>	 <u>\$ 387,480</u>	 <u>\$ 13,659,129</u>
 Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 305,307	\$ -	\$ -	\$ 305,307
Construction in progress	<u>122,701</u>	<u>1,356,483</u>	<u>1,014,729</u>	<u>464,455</u>
 Total capital assets, not being depreciated	 <u>428,008</u>	 <u>1,356,483</u>	 <u>1,014,729</u>	 <u>769,762</u>
 Capital assets, being depreciated:				
Buildings	8,752,774	115,875	402	8,868,247
Improvements other than buildings	16,413,550	459,019	84,830	16,787,739
Machinery and equipment	<u>10,002,941</u>	<u>438,416</u>	<u>134,522</u>	<u>10,306,835</u>
 Totals	 <u>35,169,265</u>	 <u>1,013,310</u>	 <u>219,754</u>	 <u>35,962,821</u>
 Less accumulated depreciation for:				
Buildings	415,730	175,055	60	590,725
Improvement other than buildings	3,611,107	328,272	83,944	3,855,435
Machinery and equipment	<u>1,483,360</u>	<u>252,255</u>	<u>73,263</u>	<u>1,662,352</u>
 Totals	 <u>5,510,197</u>	 <u>755,582</u>	 <u>157,267</u>	 <u>6,108,512</u>
 Total capital assets, being depreciated, net	 <u>29,659,068</u>	 <u>257,728</u>	 <u>62,487</u>	 <u>29,854,309</u>
 Total capital assets, net	 <u>\$ 30,087,076</u>	 <u>\$ 1,614,211</u>	 <u>\$ 1,077,216</u>	 <u>\$ 30,624,071</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Storm Water Utility:				
Capital assets, not being depreciated:				
Construction in progress	\$ 134,597	\$ 110,040	\$ 29,849	\$ 214,788
Capital assets, being depreciated:				
Buildings	221	376	-	597
Improvements other than buildings	867,255	29,847	-	897,102
Machinery and equipment	19,327	65,742	-	85,069
Totals	886,803	95,965	-	982,768
Less accumulated depreciation for:				
Buildings	-	4	-	4
Improvements other than buildings	33,700	17,345	-	51,045
Machinery and equipment	-	387	-	387
Totals	33,700	17,736	-	51,436
Total capital assets, being depreciated, net	853,103	78,229	-	931,332
Total capital assets, net	\$ 987,700	\$ 188,269	\$ 29,849	\$ 1,146,120
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 162,745	\$ 526	\$ -	\$ 163,271
Construction in progress	17,504	2,172,559	2,070,433	119,630
Total capital assets, not being depreciated	180,249	2,173,085	2,070,433	282,901
Capital assets, being depreciated:				
Buildings	3,846,522	22,567	-	3,869,089
Improvements other than buildings	40,143,634	1,669,082	251,249	41,561,467
Machinery and equipment	1,650,515	273,124	107,811	1,815,828
Totals	45,640,671	1,964,773	359,060	47,246,384
Less accumulated depreciation for:				
Buildings	2,375,927	129,167	-	2,505,094
Improvements other than buildings	26,227,506	1,207,290	265,563	27,169,233
Machinery and equipment	1,111,964	32,479	89,085	1,055,358
Totals	29,715,397	1,368,936	354,648	30,729,685
Total capital assets, being depreciated, net	15,925,274	595,837	4,412	16,516,699
Total capital assets, net	\$ 16,105,523	\$ 2,768,922	\$ 2,074,845	\$ 16,799,600

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, 2008	Committed	Required Future Funding
Wastewater Utility:				
Grissom facility upgrade	\$ 9,400,000	\$ 464,455	\$ 828,742	\$ 8,935,545
Storm Water Utility:				
Oakdale project	2,200,000	214,788	1,614	1,985,212
Electric Utility:				
Distribution substation	1,350,000	119,630	244,604	-
Water Utility:				
Electric pump project	44,000	28,179	15,821	-
Totals	<u>\$ 12,994,000</u>	<u>\$ 827,052</u>	<u>\$ 1,090,781</u>	<u>\$ 10,920,757</u>

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2008, were as follows:

Transfer From	Transfer To General Fund
Water Utility	\$ 59,734
Electric Utility	450,495
Total	<u>\$ 510,229</u>

These transfers represent payments in lieu of taxes.

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, 2008, the outstanding principal balance of the loan was

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\$12,865,532, and the amount left available to draw was \$1,274,468. After the last drawdown on that wastewater project, the Utility requested and obtained approval from the State to use the balance of the authorized loan amount for a storm water project. Annual debt service requirements for the loan will not be fully determined until the State has processed the Utility's final request and the last drawdown has occurred.

2. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences:				
Water Utility	\$ 28,041	\$ 7,436	\$ 5,194	\$ 30,283
Wastewater Utility	23,209	4,837	4,303	23,743
Electric Utility	99,807	34,784	27,055	107,536
Storm Water Utility	<u>1,922</u>	<u>1,667</u>	<u>1,275</u>	<u>2,314</u>
Total compensated absences	152,979	48,724	37,827	163,876
Loans payable:				
Wastewater Utility	<u>13,673,132</u>	<u>2,400</u>	<u>810,000</u>	<u>12,865,532</u>
Total long-term liabilities	<u>\$ 13,826,111</u>	<u>\$ 51,124</u>	<u>\$ 847,827</u>	<u>\$ 13,029,408</u>

F. Restricted Assets

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

Water Utility:	
Customer deposits	\$ 44,805
Improvement reserve	<u>736,479</u>
Total Water Utility	<u>781,284</u>
Wastewater Utility:	
Customer deposits	41,795
Construction cash	289,143
Cash with fiscal agent - construction escrow	76,223
Debt covenant funds:	
Bond and interest	432,750
Debt service reserve	1,245,530
Improvement reserve	<u>2,989,230</u>
Total Wastewater Utility	<u>5,074,671</u>

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(Continued)

Storm Water Utility:		
Improvement reserve		2,771
Electric Utility:		
Customer deposits		161,650
Health claims reserve		295,174
Improvement reserve		1,869,782
Total Electric Utility		2,326,606
Total restricted assets		\$ 16,367,893

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; 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 on the Statement of Net Assets.

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(Continued)

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

	2007	2008
Unpaid claims, beginning of fiscal year	\$ 251,308	\$ 170,389
Incurred claims and changes in estimates	402,199	766,537
Claim payments	483,118	642,362
Unpaid claims, end of fiscal year	\$ 170,389	\$ 294,564

Job Related Illnesses or Injuries to Employees

During 2008, the Utilities joined together with other governmental entities in the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for 745 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Utilities pay an annual premium to the risk pool for job related illnesses and injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$600,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$600,000 limit.

B. Subsequent Events

Grissom Wastewater Rates

On May 4, 2009, the City Council approved a rate increase for the Grissom Wastewater Utility. This increase is to take effect in two phases with a 28% increase effective May 1, 2009, and an 18% increase effective July 1, 2010.

Construction in Projects

The Storm Water Utility Oakdale project, estimated at \$2.2 million, involves the separation of sanitary sewers and storm drains in the City of Peru Oakdale subdivision. Funding for this project is \$1.2 million from the remaining Wastewater Utility SRF loan, a \$500,000 ten year term loan from American Trust Bank, and a \$200,000 loan from the Peru Wastewater Utility, if needed, over a five year period. This project is expected to be completed by November of 2009.

The Electric Utility has a \$1.35 million distribution substation project near the Armour Eckrich plant. This project will be funded from depreciation cash on hand and is expected to be completed during the summer of 2010.

The Grissom Wastewater Utility facility upgrade, estimated at \$9.4 million, will be funded in part by a federal stimulus grant of \$3.8 million and a State Revolving Fund (SRF) loan for up to \$5.7 million. The estimated completion date for this project is in the spring of 2011.

PERU MUNICIPAL UTILITIES
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(Continued)

C. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment medical benefits, as authorized by IC 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 premium charged to retirees. 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, 2008, expenditures of \$38,211 were recognized for postemployment benefits.

D. Rate Structure

1. Water Utilities

The current rate structure was approved by the Indiana Utility Regulatory Commission (IURC) on April 14, 1994. The Utility has 4,838 customers.

Rates for 1,058 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 4,935 customers. The rate structure for 1,049 additional customers located within the Grissom Aeroplex was approved by the City Council on January 6, 2003. As described above, the City Council approved a rate increase effective May 1, 2009.

3. Electric Utility

The current rate structure was approved by the Utility Regulatory Commission on June 13, 2007. The Utility has 10,465 customers.

4. Storm Water Utility

The current rate structure was approved by the City Council on June 7, 2004. The Utility has 4,825 customers.

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.

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(Continued)

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 2007 and 2008:

	2007		2008	
	Megawatt Hours	Average Price	Megawatt Hours	Average Price
Power sold to IMPA	36,754	\$ 42.01	54,884	\$ 39.47
Power purchased from IMPA	276,681	50.91	263,793	54.64

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 2008 are as follows:

Customer	Water Utility	Wastewater Utility	Electric Utility
Armour Eckrich	1.7%	4.4%	14.2%
Miami County Correctional Facility	13.3%	12.6%	5.8%

G. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Utilities contribute 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 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

PERU MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 274,169
Interest on net pension obligation	(8,978)
Adjustment to annual required contribution	10,231
Annual pension cost	275,422
Contributions made	274,050
Increase (decrease) in net pension obligation	1,372
Net pension obligation, beginning of year	(123,831)
Net pension obligation, end of year	\$ (122,459)

	PERF
Contribution rates:	
Utilities	7.75%
Plan members	3%
Actuarial valuation date	07-01-08
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

PERU MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Actuarial Assumptions</u>	<u>PERF</u>
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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF 06-30-06	\$ 239,287	95%	\$ (155,596)
06-30-07	276,037	88%	(123,831)
06-30-08	275,422	100%	(122,459)

PERU MUNICIPAL UTILITIES
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employee's 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)
07-01-06	\$ 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%)
07-01-08	5,252,979	6,398,842	(1,145,863)	82%	3,787,604	(30%)

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EXIT CONFERENCE

The contents of this report were discussed on September 17, 2009, with Stanley Akers, President of the Utility Service Board; Roger B. Merriman, General Manager; Leah Aikman, Office Manager; and Kevin Shives, Assistant Office Manager. Our audit disclosed no material items that warrant comment at this time.