

B37165

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

EXAMINATION REPORT

OF

PERU MUNICIPAL UTILITIES
CITY OF PERU
MIAMI COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
07/01/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
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	7-23
Required Supplementary Information:	
Schedule of Funding Progress	24
Exit Conference.....	25

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	01-01-09 to 12-31-10
Utility Office Manager	Leah Aikman	01-01-09 to 12-31-10
Superintendent of Electric Utility - Power Plant	Jeffrey Jernberg	01-01-09 to 12-31-10
Superintendent of Electric Utility - Transmission and Distribution	Curtis Bankston	01-01-09 to 12-31-10
Superintendent of Water Utility	Mike Dahlquist	01-01-09 to 12-31-10
Superintendent of Wastewater Utility	Mike Dahlquist	01-01-09 to 12-31-10
Storm Water Coordinator	Jamin Beisiegel	01-01-09 to 12-31-10
President of the Utility Service Board	Stanley Akers	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT 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, a department of the City of Peru, as of and for the year ended December 31, 2009. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion 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 statement 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 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, 2009, 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 position of the business-type activities for the Peru Municipal Utilities, as of December 31, 2009, 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 Peru Municipal Utilities has 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 part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

June 14, 2010

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF NET ASSETS
December 31, 2009

	2009			
	Electric Utility	Water Utility	Wastewater Utility	Storm Water Utility
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,443,820	\$ 385,771	\$ 1,719,158	\$ 271,278
Accounts receivable (net of allowance)	1,113,357	136,989	263,403	21,818
Inventories	364,726	158,049	-	-
Prepaid items	161,229	23,906	50,643	644
Total current assets	5,083,132	704,715	2,033,204	293,740
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	3,314,454	824,843	2,456,162	394,600
Bond and interest cash and investments	-	-	1,728,336	-
Construction cash and investments	-	-	332,753	-
Customer deposits	166,850	44,480	39,855	-
Other	184,602	-	152,192	-
Retainage	-	-	255,842	-
Total restricted assets	3,665,906	869,323	4,965,140	394,600
Capital assets:				
Land, improvements to land and construction in progress	425,170	101,208	4,225,739	216,376
Other capital assets (net of accumulated depreciation)	15,759,156	13,408,799	30,806,317	1,345,678
Total capital assets	16,184,326	13,510,007	35,032,056	1,562,054
Total noncurrent assets	19,850,232	14,379,330	39,997,196	1,956,654
Total assets	24,933,364	15,084,045	42,030,400	2,250,394
Liabilities				
Current liabilities:				
Accounts payable	2,743,409	40,021	93,903	69,159
Accrued payroll payable	30,983	10,480	11,319	1,424
Taxes payable	99,650	8,999	-	-
Other current liabilities	184,102	-	-	-
Current liabilities payable from restricted assets:				
Customer deposits	166,850	44,480	39,855	-
Current portion of loans payable	-	-	-	-
Accrued interest payable	-	-	-	7,054
Retainage payable	-	-	408,033	-
Total current liabilities	3,224,994	103,980	553,110	77,637
Noncurrent liabilities:				
Loans payable - net of current portion	-	-	14,680,223	500,000
Compensated absences	105,413	34,403	27,143	2,934
Total noncurrent liabilities	105,413	34,403	14,707,366	502,934
Total liabilities	3,330,407	138,383	15,260,476	580,571
Net Assets				
Invested in capital assets, net of related debt	16,184,326	13,510,007	20,351,833	1,062,054
Restricted for debt service	-	-	1,728,336	-
Restricted for other	3,499,056	824,843	2,788,916	387,546
Unrestricted	1,919,576	610,812	1,900,839	220,223
Total net assets	\$ 21,602,958	\$ 14,945,662	\$ 26,769,924	\$ 1,669,823

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, 2009

	2009			
	Electric Utility	Water Utility	Wastewater Utility	Storm Water Utility
Operating revenues:				
Metered water revenue:				
Residential	\$ -	\$ 1,024,215	\$ -	\$ -
Commercial and industrial	-	684,125	-	-
Residential sales	9,188,470	-	1,781,096	208,502
Commercial and industrial sales	13,485,428	-	1,542,605	151,601
Public street and highway lighting	145,939	-	-	-
Fire protection revenue	-	207,462	-	-
Penalties	95,162	16,463	66,723	6,336
Flat rate revenues	-	-	109,495	-
Other	87,950	9	69,629	-
Total operating revenues	23,002,949	1,932,274	3,569,548	366,439
Operating expenses:				
Water treatment expense - operations and maintenance	-	15,031	-	-
Power production	38,506	-	-	-
Transmission and distribution	239,532	-	-	-
Water distribution - operations and maintenance	-	53,151	-	-
Collection system - operations and maintenance	-	-	58,255	16,683
Treatment and disposal - operations and maintenance	-	-	29,417	-
Sales expense	5,709	1,855	1,856	95
Administration and general	280,960	85,679	97,841	6,297
Depreciation expense	1,497,159	305,480	790,130	24,675
Insurance claims and premiums	245,032	90,804	111,847	4,408
Other	458,579	74,336	59,721	7,561
Salaries and wages	1,781,628	713,243	655,895	85,652
Employee pensions and benefits	888,463	271,174	260,390	31,022
Purchased water	-	-	43,447	-
Purchased power	15,530,999	200,068	351,754	-
Sludge removal	-	-	63,920	-
Fuel for power production	497,526	-	-	-
Chemicals	29,830	21,041	-	-
Materials and supplies	335,958	98,405	201,251	6,030
Contractual services	226,980	-	-	-
Transportation expenses	73,320	23,357	26,536	2,160
Regulatory commission expenses	38,281	-	-	-
Bad debt expense	93,564	21,168	1,291	-
Total operating expenses	22,262,026	1,974,792	2,753,551	184,583
Operating income (loss)	740,923	(42,518)	815,997	181,856
Nonoperating revenues (expenses):				
Interest and investment revenue	46,320	9,038	49,153	4,568
Miscellaneous revenue	80,253	32,346	16,454	-
Interest expense	-	-	(376,157)	(7,054)
Total nonoperating revenues (expenses)	126,573	41,384	(310,550)	(2,486)
Income (loss) before contributions and transfers	867,496	(1,134)	505,447	179,370
Capital contributions	83,463	8,887	2,599,570	-
Transfers to City	(470,495)	(59,734)	-	-
Change in net assets	480,464	(51,981)	3,105,017	179,370
Total net assets - beginning	21,122,494	14,997,643	23,664,907	1,490,453
Total net assets - ending	\$ 21,602,958	\$ 14,945,662	\$ 26,769,924	\$ 1,669,823

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, 2009

	2009			
	Electric Utility	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 22,843,103	\$ 1,916,142	\$ 3,502,996	\$ 366,921
Payments to suppliers and contractors	(17,901,172)	(794,024)	(1,144,563)	(56,719)
Payments to employees	(2,051,106)	(806,789)	(742,645)	(92,287)
Other payments	(625,021)	(106,558)	(80,493)	(7,753)
Other receipts	181,149	-	1,729	-
Net cash provided by operating activities	<u>2,446,953</u>	<u>208,771</u>	<u>1,537,024</u>	<u>210,162</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(470,495)	(59,734)		-
Miscellaneous nonoperating revenue	80,253	32,346	16,454	-
Net cash provided (used) by noncapital financing activities	<u>(390,242)</u>	<u>(27,388)</u>	<u>16,454</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Capital contributions	83,463	8,887	233,868	-
Acquisition and construction of capital assets	(941,129)	(156,358)	(813,453)	(378,043)
Principal paid on capital debt	-	-	(835,000)	-
Interest paid on capital debt	-	-	(389,716)	-
Interest earned on retainage escrow	-	-	918	-
Proceeds from capital debt	-	-	687,411	500,000
Net cash used by capital and related financing activities	<u>(857,666)</u>	<u>(147,471)</u>	<u>(1,115,972)</u>	<u>121,957</u>
Cash flows from investing activities:				
Interest received	46,320	9,038	49,153	4,568
Net increase (decrease) in cash and cash equivalents	1,245,365	42,950	486,659	336,687
Cash and cash equivalents, January 1	5,864,361	1,212,144	6,197,639	329,191
Cash and cash equivalents, December 31	<u>\$ 7,109,726</u>	<u>\$ 1,255,094</u>	<u>\$ 6,684,298</u>	<u>\$ 665,878</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 740,923	\$ (42,518)	\$ 815,997	\$ 181,856
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,497,159	305,480	790,130	24,675
(Increase) decrease in assets:				
Accounts receivable	(159,346)	(16,134)	(60,825)	484
Other current assets	195,294	-	-	-
Inventories	54,954	(15,805)	-	-
Prepaid items	(6,111)	(1,908)	(21,774)	(194)
Increase (decrease) in liabilities:				
Accounts payable	221,983	(25,627)	9,464	2,416
Accrued payroll payable	320	835	2,572	305
Taxes payable	9,272	653	-	-
Other current liabilities	(110,572)	-	-	-
Compensated absence payable	(2,123)	4,120	3,400	620
Customer deposits	5,200	(325)	(1,940)	-
Total adjustments	<u>1,706,030</u>	<u>251,289</u>	<u>721,027</u>	<u>28,306</u>
Net cash provided by operating activities	<u>\$ 2,446,953</u>	<u>\$ 208,771</u>	<u>\$ 1,537,024</u>	<u>\$ 210,162</u>
Noncash investing, capital and financing activities:				
Items capitalized from inventory	\$ 100,866	\$ -	\$ -	\$ -
Capital assets acquired through SRF loans	-	-	1,962,280	-
Capital assets acquired through contributions	-	-	2,365,702	-
Increase (decrease) in capital assets acquired through accounts payable	(160,110)	-	(274,212)	62,566
Increase (decrease) in capital assets acquired through retainage payable	-	-	330,892	-

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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 business type funds are recorded as expenditures when consumed rather than when purchased.

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

3. Restricted Assets

Certain proceeds of the enterprise fund loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants.

The financial statements report \$9,894,969 of restricted assets.

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.

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

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. The total interest expense incurred by the Utilities during the current year was \$383,211. No interest was capitalized during 2009.

5. Compensated Absences

- a. Sick Leave – Utilities 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. Accumulated sick leave is paid to employees at 20% as severance pay upon leaving employment. 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.
- 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.
- c. Personal Leave – Utilities employees, who have accumulated the maximum 47 sick days, earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

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.

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

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2009, the Utilities had deposit balances in the amount of \$16,549,994.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

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

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Utilities' purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have formal investment policies for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have formal investment policies for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Utilities do not have formal investment policies for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have policies in regards to concentration of credit risk.

Foreign Currency Risk

The Utilities do not have formal policies in regards to foreign currency risk.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 163,271	\$ 36,164	\$ -	\$ 199,435
Construction in progress	119,630	845,721	739,616	225,735
Total capital assets, not being depreciated	<u>282,901</u>	<u>881,885</u>	<u>739,616</u>	<u>425,170</u>
Capital assets, being depreciated:				
Buildings	3,869,089	-	-	3,869,089
Improvements other than buildings	41,561,467	736,429	237,098	42,060,798
Machinery and equipment	1,815,828	3,187	80,451	1,738,564
Totals	<u>47,246,384</u>	<u>739,616</u>	<u>317,549</u>	<u>47,668,451</u>
Less accumulated depreciation for:				
Buildings	(2,505,094)	(116,073)	-	(2,621,167)
Improvements other than buildings	(27,169,233)	(1,246,844)	(237,098)	(28,178,979)
Machinery and equipment	(1,055,358)	(134,242)	(80,451)	(1,109,149)
Totals	<u>(30,729,685)</u>	<u>(1,497,159)</u>	<u>(317,549)</u>	<u>(31,909,295)</u>
Total capital assets, being depreciated, net	<u>16,516,699</u>	<u>(757,543)</u>	<u>-</u>	<u>15,759,156</u>
Total capital assets, net	<u>\$ 16,799,600</u>	<u>\$ 124,342</u>	<u>\$ 739,616</u>	<u>\$ 16,184,326</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 101,208	\$ -	\$ -	\$ 101,208
Construction in progress	28,179	156,358	184,537	-
Total capital assets, not being depreciated	<u>129,387</u>	<u>156,358</u>	<u>184,537</u>	<u>101,208</u>
Capital assets, being depreciated:				
Buildings	2,999,064	21,500	17,257	3,003,307
Improvements other than buildings	13,020,364	90,918	6,505	13,104,777
Machinery and equipment	2,345,826	72,119	38,259	2,379,686
Totals	<u>18,365,254</u>	<u>184,537</u>	<u>62,021</u>	<u>18,487,770</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	(618,016)	(44,986)	(17,257)	(645,745)
Improvements other than buildings	(3,433,643)	(195,305)	(6,505)	(3,622,443)
Machinery and equipment	(783,853)	(65,189)	(38,259)	(810,783)
	<u>(4,835,512)</u>	<u>(305,480)</u>	<u>(62,021)</u>	<u>(5,078,971)</u>
Totals				
Total capital assets, being depreciated, net	<u>13,529,742</u>	<u>(120,943)</u>	<u>-</u>	<u>13,408,799</u>
Total capital assets, net	<u>\$ 13,659,129</u>	<u>\$ 35,415</u>	<u>\$ 184,537</u>	<u>\$ 13,510,007</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 305,307	\$ -	\$ -	\$ 305,307
Construction in progress	464,455	5,198,115	1,742,138	3,920,432
	<u>769,762</u>	<u>5,198,115</u>	<u>1,742,138</u>	<u>4,225,739</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	8,868,247	-	18,117	8,850,130
Improvements other than buildings	16,787,739	1,700,934	26,367	18,462,306
Machinery and equipment	10,306,835	41,204	32,576	10,315,463
	<u>35,962,821</u>	<u>1,742,138</u>	<u>77,060</u>	<u>37,627,899</u>
Totals				
Less accumulated depreciation for:				
Buildings	(590,725)	(177,365)	(18,117)	(749,973)
Improvements other than buildings	(3,855,435)	(335,755)	(26,367)	(4,164,823)
Machinery and equipment	(1,662,352)	(277,010)	(32,576)	(1,906,786)
	<u>(6,108,512)</u>	<u>(790,130)</u>	<u>(77,060)</u>	<u>(6,821,582)</u>
Totals				
Total capital assets, being depreciated, net	<u>29,854,309</u>	<u>952,008</u>	<u>-</u>	<u>30,806,317</u>
Total capital assets, net	<u>\$ 30,624,071</u>	<u>\$ 6,150,123</u>	<u>\$ 1,742,138</u>	<u>\$ 35,032,056</u>
Storm Water Utility:				
Capital assets, not being depreciated:				
Land	\$ -	\$ 216,376	\$ -	\$ 216,376
Construction in progress	214,788	224,233	439,021	-
	<u>214,788</u>	<u>440,609</u>	<u>439,021</u>	<u>216,376</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	597	-	-	597
Improvements other than buildings	897,102	438,852	-	1,335,954
Machinery and equipment	85,069	169	-	85,238
	<u>982,768</u>	<u>439,021</u>	<u>-</u>	<u>1,421,789</u>
Totals				

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 (continued):				
Less accumulated depreciation for:				
Buildings	(4)	(12)	-	(16)
Improvements other than buildings	(51,045)	(17,942)	-	(68,987)
Machinery and equipment	(387)	(6,721)	-	(7,108)
	<u>(51,436)</u>	<u>(24,675)</u>	<u>-</u>	<u>(76,111)</u>
Totals				
Total capital assets, being depreciated, net	<u>931,332</u>	<u>414,346</u>	<u>-</u>	<u>1,345,678</u>
Total capital assets, net	<u>\$ 1,146,120</u>	<u>\$ 854,955</u>	<u>\$ 439,021</u>	<u>\$ 1,562,054</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2009</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
Electric Utility:		
Substation #6	\$ 159,008	\$ 944,239
Boiler equipment	9,758	-
Wells Addition underground	56,969	-
	<u>225,735</u>	<u>944,239</u>
Total Electric Utility		
	225,735	944,239
Wastewater Utility:		
Grissom wastewater treatment plant	<u>3,920,432</u>	<u>5,053,305</u>
Totals	<u>\$ 4,146,167</u>	<u>\$ 6,941,783</u>

D. Interfund Activity

Interfund Transfers

Interfund transfers at December 31, 2009, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2009</u>
Electric Utility	General Fund	\$ 470,495
Water Utility	General Fund	59,734
		<u>530,229</u>
Total		<u>\$ 530,229</u>

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

These transfers represent payments in lieu of taxes.

E. Long-Term Liabilities

1. Notes and Loans Payable

The Utilities have entered into various loans. The amount authorized for the state revolving fund loan for the Grissom wastewater treatment plant project has not been fully drawn down. The maximum draw for the loan is \$5,700,000. As of December 31, 2009, the outstanding principal balance of the loan was \$1,375,223 leaving \$4,324,777 available to draw. Annual debt service requirements for the loan will be determined after the final drawdown. Annual debt service requirements to maturity for the remaining loans are as follows:

	<u>Principal</u>	<u>Interest</u>
Wastewater Utility:		
2010	\$ -	\$ 192,922
2011	855,000	373,447
2012	880,000	348,290
2013	910,000	322,335
2014	935,000	295,582
2015-2019	5,090,000	1,049,361
2020-2024	<u>4,635,000</u>	<u>273,685</u>
Totals	<u>\$ 13,305,000</u>	<u>\$ 2,855,622</u>
Storm Water Utility:		
2010	\$ 41,199	\$ 21,163
2011	42,942	19,419
2012	44,760	17,601
2013	46,654	15,707
2014	48,629	13,732
2015-2019	<u>275,816</u>	<u>35,989</u>
Totals	<u>\$ 500,000</u>	<u>\$ 123,611</u>

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

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable:					
Wastewater Utility	\$ 12,865,532	\$ 2,649,691	\$ 835,000	\$ 14,680,223	\$ -
Storm Water Utility	-	500,000	-	500,000	41,199
Total loans payable	<u>12,865,532</u>	<u>3,149,691</u>	<u>835,000</u>	<u>15,180,223</u>	<u>41,199</u>
Compensated absences:					
Electric Utility	107,536	22,860	24,983	105,413	-
Water Utility	30,283	8,740	4,620	34,403	-
Wastewater Utility	23,743	6,317	2,917	27,143	-
Storm Water Utility	2,314	834	214	2,934	-
Total compensated absences payable	<u>163,876</u>	<u>38,751</u>	<u>32,734</u>	<u>169,893</u>	<u>-</u>
Total long-term liabilities	<u>\$ 13,029,408</u>	<u>\$ 3,188,442</u>	<u>\$ 867,734</u>	<u>\$ 15,350,116</u>	<u>\$ 41,199</u>

F. Segment Information

The Wastewater Utility obtained loans to finance the Peru treatment plant project and the Grissom Aeroplex Area treatment plant project. Creditors for each of the loans rely solely on the revenue generated by the individual service areas for repayment. Summary financial information for the Peru and Grissom service areas of the Wastewater Utility is presented below.

Condensed Statement of Net Assets		
	Peru	Grissom
Assets:		
Current assets	\$ 1,084,687	\$ 948,517
Due from other funds	-	-
Restricted assets	3,654,483	1,310,657
Capital assets	<u>27,831,289</u>	<u>7,200,767</u>
Total assets	<u>\$ 32,570,459</u>	<u>\$ 9,459,941</u>
Liabilities:		
Current liabilities	\$ 267,449.00	\$ 285,661.00
Due to other funds	-	-
Current liabilities payable from restricted assets	-	-
Noncurrent liabilities	<u>13,328,483</u>	<u>1,378,883</u>
Total liabilities	<u>\$ 13,595,932</u>	<u>\$ 1,664,544</u>

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

Condensed Statement of Net Assets

	Peru	Grissom
Net assets:		
Invested in capital assets, net of related debt	\$ 14,526,289	\$ 5,825,544
Restricted	3,628,828	1,296,457
Unrestricted	819,410	673,396
Total net assets	<u>\$ 18,974,527</u>	<u>\$ 7,795,397</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Peru	Grissom
Charged (pledged against loans)	\$ 2,610,415	\$ 959,133
Depreciation expense	(696,913)	(93,217)
Other operating expenses	(1,409,807)	(553,614)
Operating income	503,695	312,302
Nonoperating revenues (expenses):		
Investment earnings	38,432	10,721
Interest expense	(376,157)	-
Other	16,006	448
Capital contributions	1,300	2,598,270
Change in net assets	183,276	2,921,741
Beginning net assets	<u>18,791,251</u>	<u>4,873,656</u>
Ending net assets	<u>\$ 18,974,527</u>	<u>\$ 7,795,397</u>

Condensed Statement of Cash Flows

	Peru	Grissom
Net cash provided (used) by:		
Operating activities	\$ 1,208,941	\$ 328,083
Noncapital financing activities	16,006	448
Capital and related financing activities	(1,801,369)	685,397
Investing activities	38,432	10,721
Net increase (decrease)	(537,990)	1,024,649
Beginning cash and cash equivalents	<u>5,079,888</u>	<u>1,117,750</u>
Ending cash and cash equivalents	<u>\$ 4,541,898</u>	<u>\$ 2,142,399</u>

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

G. Restricted Assets

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

Electric Utility:	
Customer deposits	\$ 166,850
Health claims reserve	184,602
Improvement reserve	<u>3,314,454</u>
Total Electric Utility	<u>3,665,906</u>
Water Utility:	
Customer deposits	44,480
Improvement reserve	<u>824,843</u>
Total Water Utility	<u>869,323</u>
Wastewater Utility:	
Customer deposits	39,855
Construction cash	332,753
Cash with fiscal agent - construction escrow	408,034
Debt covenant funds:	
Bond and interest	436,452
Debt service reserve	1,291,884
Depreciation Fund	<u>2,456,162</u>
Total Wastewater Utility	<u>4,965,140</u>
Storm Water Utility:	
Improvement reserve	<u>394,600</u>
Total restricted assets	<u><u>\$ 9,894,969</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

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

insurance coverage for the past three years. Significant reductions in insurance by major category of risk are: Theft of, damage to, and destruction of assets coverage for the Electric Utility was reduced by approximately \$16,500,000 beginning in 2010 as a result of dropping coverage for boilers and machinery in the generating plant, reflecting management's position that the Utilities would discontinue power generation activity rather than repair any such damage.

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 salaries and wages. The total charge allocated to each of the funds 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). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

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

	2008	2009
Unpaid claims, beginning of fiscal year	\$ 170,389	\$ 294,564
Incurred claims and changes in estimates	766,537	378,485
Claim payments	(642,362)	(489,108)
Unpaid claims, end of fiscal year	\$ 294,564	\$ 183,941

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 approximately 700 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 its 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.

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

B. Other 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. The plan has a defined benefit element for retirees under age 65 and a defined contribution element for retirees age 65 and over.

Defined Benefit Plan

Retirees under age 65 may continue in the Utilities' self-insured plan for medical benefits to employees described above. Currently, 2 retirees meet the eligibility requirements and participate in this plan. The Utilities provide 100% of these benefits except for a flat premium charged to the retirees. Expenditures for these benefits are recognized when funds are set aside to pay future claims for both currently employed and retired members of the plan.

Defined Contribution Plan

The Utilities offer a Medicare Supplement and Medicare - Part D plan to retirees age 65 and over. The Utilities contribute 3½ percent of the premium per year of service for each retiree. Currently 19 retirees meet the eligibility requirements and participate in this plan. Expenditures for these benefits are recognized when the premiums are paid.

During the year ended December 31, 2009, expenditures of \$42,766 were recognized for postemployment benefits.

C. Rate Structure

1. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission (IURC) on June 13, 2007. The Utility has 10,439 customers.

2. Water Utility

The current rate structure for 4,778 customers in the Peru service area was approved by the Indiana Utility Regulatory Commission (IURC) on April 14, 1994.

Rates for 1,010 additional customers in the Grissom Aeroplex service area are not subject to approval by the IURC. The current rate structure was approved by the Peru City Council on January 6, 2003.

3. Wastewater Utility

The current rate structure for 4,849 customers in the Peru service area was approved by the Peru City Council on April 10, 2000. The rate structure for 1,008 additional customers in the Grissom Aeroplex service area was approved by the Peru City Council on May 4, 2009.

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

4. Storm Water Utility

The current rate structure was approved by the Peru City Council on June 7, 2004. The Utility has 4,728 customers.

D. Purchase and Sale of Power – Electric Utility

The Peru Electric Utility is a member of the Indiana Municipal Power Agency (IMPA). IMPA is an incorporated political subdivision of the State of Indiana pursuant to Indiana Code 8-1-2.2 and serves as a supplier of electric power to 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 to purchase its power demands for servicing its customers from IMPA. The following schedule summarizes the Utility's power purchases and sales transactions with IMPA for the years 2008 and 2009:

	2008		2009	
	Megawatt Hours	Average Price	Megawatt Hours	Average Price
Power sold to IMPA	54,884	\$ 39.47	10,384	\$ 42.28
Power purchased from IMPA	263,793	54.64	251,829	65.28

E. Major Customers

The Peru Utilities have two major customers who account for a significant portion of Utility revenue. The customers and the percentage of revenue attributable to each for 2009 are as follows:

Customer	Electric Utility	Water Utility	Wastewater Utility
Armour Eckrich	15.5%	1.9%	4.9%
Miami County Correctional Facility	6.1%	13.8%	13.8%

F. Pension Plans

Agent Multiple-Employer Defined Benefit 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 Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by

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

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 three percent 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

PERF members are required to contribute 3% of their annual covered salary. The Utility is required to contribute at an actuarially determined rate; the current rate is 7.75% of annual covered payroll. The contribution requirements of plan members and the Utility are established and may be amended by the PERF Board of Trustees.

Annual Pension Cost

For 2009, the Utilities' required and actual contributions were 98.6% of the Utilities' annual pension cost of \$304,247 for PERF.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	303,008
Interest on net pension obligation		(8,878)
Adjustment to annual required contribution		10,117
Annual pension cost		304,247
Contributions made		300,100
Increase (decrease) in net pension obligation		4,147
Net pension obligation, beginning of year		(122,459)
Net pension obligation, end of year	\$	(118,312)

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

	PERF
Contribution rates:	
Government	8%
Plan members	3%
Actuarial valuation date	07-01-09
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar, closed amortization period
Amortization period	30 years
Amortization period (from date)	07-01-07
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

Three Year Trend Information				
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 276,037	88.5%	\$ (123,831)
	06-30-08	275,422	99.5%	(122,459)
	06-30-09	304,247	98.6%	(118,312)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of July 1, 2009, the most recent actuarial valuation date is as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Retirement Plan						
PERF	<u>\$ 4,730,885</u>	<u>\$ 6,586,061</u>	<u>\$ 1,855,176</u>	72%	<u>\$ 4,007,951</u>	46%

The schedule of funding progress, presented as RSI for the above plan following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PERU MUNICIPAL UTILITIES
CITY OF PERU
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)
07-01-07	\$ 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%)
07-01-09	4,730,885	6,586,061	(1,855,176)	72%	4,007,951	(46%)

PERU MUNICIPAL UTILITIES
CITY OF PERU
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2010, with Roger B. Merriman, General Manager; Leah Aikman, Office Manager; and Kevin Shives, Assistant Office Manager. Our examination disclosed no material items that warrant comment at this time.