

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, 2010 to December 31, 2010



FILED
06/27/2011

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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 | 01-01-10 to 12-31-11 |
| Office Manager | Leah Aikman | 01-01-10 to 12-31-11 |
| Superintendent of Electric Utility - Power Plant | Jeffrey Jernberg Josh Chance | 01-01-10 to 12-08-10 12-09-10 to 12-31-11 |
| Superintendent of Electric Utility - Transmission and Distribution | Curtis Bankston | 01-01-10 to 12-31-11 |
| Superintendent of Water Utility | Mike Dahlquist | 01-01-10 to 12-31-11 |
| Superintendent of Wastewater Utility | Mike Dahlquist | 01-01-10 to 12-31-11 |
| Storm Water Coordinator | Jamin Beisiegel | 01-01-10 to 12-31-11 |
| President of the Utility Service Board | Stanley Akers | 01-01-10 to 12-31-11 |



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, a department of the City of Peru, as of and for the year ended December 31, 2010. 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, 2010, 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, 2010, 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 6, 2011

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF NET ASSETS
December 31, 2010

| <u>Assets</u> | Peru Electric Utility | Peru Water Utility | Peru/Grisson Water Utility | Peru Wastewater Utility | Peru/Grisson Wastewater Utility | Peru Storm Water Utility |
|--|-----------------------------|--------------------------|----------------------------------|-------------------------------|---------------------------------------|--------------------------------|
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 3,586,762 | \$ 109,967 | \$ 303,775 | \$ 887,421 | \$ 1,357,066 | \$ 358,377 |
| Accounts Receivable (Net of Allowance) | 914,068 | 92,254 | 32,017 | 170,889 | 66,649 | 24,311 |
| Inventories | 361,059 | 153,101 | - | - | - | - |
| Prepaid Items | 123,146 | 13,586 | 6,089 | 20,033 | 21,619 | 525 |
| Other Current Assets | 871 | - | - | - | - | - |
| Total Current Assets | 4,985,906 | 368,908 | 341,881 | 1,078,343 | 1,445,334 | 383,213 |
| Noncurrent Assets: | | | | | | |
| Retainage Cash and Cash Equivalents | - | - | - | 93,871 | 623,417 | - |
| Depreciation Cash and Cash Equivalents | 4,194,350 | 763,384 | 231,963 | 1,321,612 | 464,888 | 126,873 |
| Bond and Interest Cash and Cash Equivalents | - | - | - | 276,351 | 382,726 | - |
| Debt Service Reserve Cash and Cash Equivalents | - | - | - | 1,245,530 | 125,838 | - |
| Construction Cash and Cash Equivalents | - | - | - | 334,837 | - | - |
| Customer Deposits Cash and Cash Equivalents | 176,450 | 30,060 | 17,580 | 27,425 | 15,205 | - |
| Other Restricted Cash and Cash Equivalents | 245,157 | - | - | - | - | - |
| Total Noncurrent Assets | 4,615,957 | 793,444 | 249,543 | 3,299,626 | 1,612,074 | 126,873 |
| Capital Assets: | | | | | | |
| Land | 273,770 | 36,766 | 31,500 | 254,907 | - | 216,376 |
| Construction in Progress | 1,395,270 | - | - | - | - | - |
| Other Capital Assets (Net of Accumulated Depreciation) | 15,194,448 | 10,085,469 | 3,199,611 | 27,068,754 | 12,102,319 | 1,529,498 |
| Total Capital Assets | 16,863,488 | 10,122,235 | 3,231,111 | 27,323,661 | 12,102,319 | 1,745,874 |
| Total Noncurrent Assets | 21,479,445 | 10,915,679 | 3,480,654 | 30,623,287 | 13,714,393 | 1,872,747 |
| Total Assets | 26,465,351 | 11,284,587 | 3,822,535 | 31,701,630 | 15,159,727 | 2,255,960 |
| Liabilities | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | 2,415,987 | 59,471 | 33,696 | 160,948 | 6,636 | 49,687 |
| Accrued Payroll Payable | 75,007 | 17,255 | 7,904 | 19,196 | 5,993 | 2,325 |
| Taxes Payable | 87,154 | 7,460 | - | - | - | - |
| Current Liabilities Payable From Restricted Assets: | | | | | | |
| Current Portion of Loans Payable | - | - | - | 880,000 | 192,000 | 42,954 |
| Health and Flex Claims Payable | 244,657 | - | - | - | - | - |
| Customer Deposits Payable | 176,450 | 30,060 | 17,580 | 27,425 | 15,205 | - |
| Retainage Payable | - | - | - | 93,871 | 623,417 | - |
| Accrued Interest Payable | - | - | - | - | - | 14,121 |
| Total Current Liabilities | 2,999,255 | 114,246 | 59,180 | 1,181,440 | 843,251 | 109,087 |
| Noncurrent Liabilities: | | | | | | |
| Loans Payable - Net of Current Portion | - | - | - | 11,570,000 | 4,713,197 | 415,835 |
| Compensated Absences | 63,440 | 15,386 | 5,488 | 17,719 | 4,116 | 3,360 |
| Total Noncurrent Liabilities | 63,440 | 15,386 | 5,488 | 11,587,719 | 4,717,313 | 419,195 |
| Total Liabilities | 3,062,695 | 129,632 | 64,668 | 12,769,159 | 5,560,564 | 528,282 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 16,863,488 | 10,122,235 | 3,231,111 | 14,873,661 | 7,197,122 | 1,287,085 |
| Restricted for Debt Service | - | - | - | 1,521,881 | 508,564 | - |
| Restricted for Other | 4,615,957 | 793,444 | 249,543 | 1,777,745 | 1,103,510 | 126,873 |
| Unrestricted | 1,923,211 | 239,276 | 277,213 | 759,184 | 789,967 | 313,720 |
| Total Net Assets | \$ 23,402,656 | \$ 11,154,955 | \$ 3,757,867 | \$ 18,932,471 | \$ 9,599,163 | \$ 1,727,678 |

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

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, 2010

| | Peru Electric Utility | Peru Water Utility | Peru/Grissom Water Utility | Peru Wastewater Utility | Peru/Grissom Wastewater Utility | Peru Storm Water Utility |
|---|-----------------------------|--------------------------|----------------------------------|-------------------------------|---------------------------------------|--------------------------------|
| Operating Revenues: | | | | | | |
| Residential | \$ 9,518,934 | \$ 801,537 | \$ 209,641 | \$ 1,459,142 | \$ 370,877 | \$ 205,429 |
| Commercial and Industrial | 12,746,005 | 291,583 | 394,724 | 924,710 | 810,901 | 152,411 |
| Flat Rate | - | - | - | 108,900 | - | - |
| Public Street and Highway Lighting | 140,082 | - | - | - | - | - |
| Other Sales to Public Authorities | - | 33,191 | 1,110 | - | - | - |
| Fire Protection | - | 193,178 | 15,397 | - | - | - |
| Penalties | 102,260 | 7,826 | 6,831 | 52,875 | 27,965 | 6,524 |
| Other Revenues | 89,035 | - | - | 33,187 | - | - |
| Total Operating Revenues | 22,596,316 | 1,327,315 | 627,703 | 2,578,814 | 1,209,743 | 364,364 |
| Operating Expenses: | | | | | | |
| Generation Plant Operations and Maintenance | 29,616 | - | - | - | - | - |
| Transmission and Distribution | 203,500 | - | - | - | - | - |
| Treatment Operations and Maintenance | - | 9,074 | 3,056 | 20,898 | 8,477 | - |
| Distribution Operations and Maintenance | - | 37,769 | 17,314 | - | - | - |
| Collection System Operations and Maintenance | - | - | - | 73,894 | 7,166 | 75,144 |
| Purchased Power | 14,577,215 | 120,838 | 67,263 | 223,957 | 117,019 | 548 |
| Purchased Water | - | - | - | 6,140 | 1,168 | - |
| Sludge Removal | - | - | - | 52,400 | 37,819 | - |
| Fuel for Power Production | 51,010 | - | - | - | - | - |
| Materials and Supplies | 177,893 | 77,185 | 37,509 | 177,026 | 66,519 | 5,404 |
| Chemicals | 35,665 | 15,497 | 6,150 | - | - | - |
| Transportation | 70,577 | 14,386 | 6,146 | 31,770 | 7,672 | 3,496 |
| Sales | 4,672 | 1,181 | 338 | 1,178 | 342 | 76 |
| Salaries and Wages | 1,656,316 | 470,596 | 217,968 | 506,130 | 208,103 | 100,793 |
| Property and Liability Insurance | 196,783 | 51,499 | 25,175 | 69,874 | 20,879 | 3,921 |
| Employee Pensions and Benefits | 1,008,246 | 241,159 | 85,093 | 282,863 | 64,374 | 44,937 |
| Administrative and General | 196,859 | 61,888 | 20,549 | 69,757 | 17,243 | 5,932 |
| Depreciation and Amortization | 1,530,520 | 250,562 | 56,491 | 729,274 | 97,809 | 33,456 |
| Other | 400,001 | 59,782 | 13,754 | 42,604 | 17,224 | 7,950 |
| Other Contractual Services | 269,459 | - | - | - | - | - |
| Regulatory Commission | 35,401 | - | - | - | - | - |
| Bad Debt Expense | 49,750 | 6,067 | 2,877 | 764 | - | - |
| Total Operating Expenses | 20,493,483 | 1,417,483 | 559,683 | 2,288,529 | 671,814 | 281,657 |
| Operating Income (Loss) | 2,102,833 | (90,168) | 68,020 | 290,285 | 537,929 | 82,707 |
| Nonoperating Revenues (Expenses): | | | | | | |
| Other Revenues | - | - | - | 21,553 | 1,479 | - |
| Interest and Investment Revenue | 48,261 | 5,469 | 2,969 | 29,470 | 10,903 | 3,365 |
| Miscellaneous Revenue | 29,324 | 33,710 | 1,734 | - | - | - |
| Miscellaneous Expense | (88) | - | - | - | - | - |
| Interest Expense | - | - | - | (385,845) | - | (28,217) |
| Total Nonoperating Revenues (Expenses) | 77,497 | 39,179 | 4,703 | (334,822) | 12,382 | (24,852) |
| Income (Loss) Before Contributions and Transfers | 2,180,330 | (50,989) | 72,723 | (44,537) | 550,311 | 57,855 |
| Capital Contributions | 89,864 | 4,835 | 325 | 2,481 | 1,253,455 | - |
| Transfers to City | (470,495) | (59,734) | - | - | - | - |
| Change in Net Assets | 1,799,699 | (105,888) | 73,048 | (42,056) | 1,803,766 | 57,855 |
| Total Net Assets - January 1 | 21,602,957 | 11,260,843 | 3,684,819 | 18,974,527 | 7,795,397 | 1,669,823 |
| Total Net Assets - December 31 | \$ 23,402,656 | \$ 11,154,955 | \$ 3,757,867 | \$ 18,932,471 | \$ 9,599,163 | \$ 1,727,678 |

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

PERU MUNICIPAL UTILITIES
CITY OF PERU
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2010

| | Peru Electric Utility | Peru Water Utility | Peru/Grisson Water Utility | Peru Wastewater Utility | Peru/Grisson Wastewater Utility | Peru Storm Water Utility |
|--|-----------------------------|--------------------------|----------------------------------|-------------------------------|---------------------------------------|--------------------------------|
| Cash Flows From Operating Activities: | | | | | | |
| Cash Other - Other Receipts | \$ 10,691 | \$ 3,263 | \$ 968 | \$ 4,039 | \$ 13,681 | \$ 118 |
| Other Payments | (520,796) | (63,128) | (27,425) | (41,597) | (16,219) | (7,950) |
| Payment to Employees | (1,889,645) | (533,527) | (230,138) | (562,767) | (220,874) | (105,144) |
| Payments to Suppliers | (16,773,846) | (564,198) | (246,031) | (925,340) | (334,142) | (89,517) |
| Receipts From Customers | <u>22,795,604</u> | <u>1,321,853</u> | <u>646,763</u> | <u>2,581,122</u> | <u>1,220,669</u> | <u>361,870</u> |
| Net Cash Provided by Operating Activities | <u>3,622,008</u> | <u>164,263</u> | <u>144,137</u> | <u>1,055,457</u> | <u>663,115</u> | <u>159,377</u> |
| Cash Flows From Noncapital Financing Activities: | | | | | | |
| Miscellaneous Nonoperating Revenue | 29,236 | 33,710 | 1,734 | 21,553 | 1,479 | - |
| Transfers to Other Funds | <u>(470,495)</u> | <u>(59,734)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Cash Provided (Used) by Noncapital Financing | <u>(441,259)</u> | <u>(26,024)</u> | <u>1,734</u> | <u>21,553</u> | <u>1,479</u> | <u>-</u> |
| Cash Flows From Capital and Related Financing Activities: | | | | | | |
| Acquisition and Construction of Capital Assets | (2,225,881) | (46,810) | (49,263) | (222,967) | (217,930) | (281,009) |
| Capital Contributions | 89,864 | 4,835 | 325 | 2,481 | 113,817 | - |
| Interest Paid on Capital Debt | - | - | - | (385,845) | - | (21,150) |
| Principal Paid on Capital Debt | - | - | - | (855,000) | - | (41,211) |
| Proceeds From Capital Debt | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>255,357</u> | <u>-</u> |
| Net Cash Provided (Used) by Capital and Related Financing | <u>(2,136,017)</u> | <u>(41,975)</u> | <u>(48,938)</u> | <u>(1,461,331)</u> | <u>151,244</u> | <u>(343,370)</u> |
| Cash Flows From Investing Activities: | | | | | | |
| Interest Received | <u>48,261</u> | <u>5,469</u> | <u>2,969</u> | <u>29,470</u> | <u>10,903</u> | <u>3,365</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,092,993 | 101,733 | 99,902 | (354,851) | 826,741 | (180,628) |
| Cash And Cash Equivalents, January 1 | <u>7,109,726</u> | <u>801,678</u> | <u>453,416</u> | <u>4,541,898</u> | <u>2,142,399</u> | <u>665,878</u> |
| Cash And Cash Equivalents, December 31 | <u>\$ 8,202,719</u> | <u>\$ 903,411</u> | <u>\$ 553,318</u> | <u>\$ 4,187,047</u> | <u>\$ 2,969,140</u> | <u>\$ 485,250</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | |
| Operating Income (Loss) | <u>\$ 2,102,833</u> | <u>\$ (90,168)</u> | <u>\$ 68,020</u> | <u>\$ 290,285</u> | <u>\$ 537,929</u> | <u>\$ 82,707</u> |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | |
| Depreciation and Amortization Expense | 1,530,520 | 250,562 | 56,491 | 729,274 | 97,809 | 33,456 |
| (Increase) Decrease in Assets: | | | | | | |
| Accounts Receivable | 199,290 | (5,460) | 19,061 | 2,311 | 23,556 | (2,494) |
| Inventories | 3,667 | 4,948 | - | - | - | - |
| Prepaid Items | 10,691 | 3,263 | 968 | 4,039 | 1,052 | 118 |
| Other Current Assets | 871 | - | - | - | - | - |
| (Increase) Decrease in Liabilities: | | | | | | |
| Accounts Payable | (283,959) | (1,261) | 85 | 22,902 | (1,921) | 44,262 |
| Accrued Payroll Payable | 4,320 | 2,013 | 1,414 | 4,083 | 2,693 | 786 |
| Taxes Payable | (12,497) | 405 | (2,823) | - | - | - |
| Health and Flex Claims Payable | 58,941 | - | - | - | - | - |
| Customer Deposits Payable | 9,600 | 2,315 | 845 | 1,770 | 1,005 | - |
| Compensated Absences | (2,269) | (2,354) | 76 | 793 | 992 | 542 |
| Net Cash Provided by Operating Activities | <u>\$ 3,622,008</u> | <u>\$ 164,263</u> | <u>\$ 144,137</u> | <u>\$ 1,055,457</u> | <u>\$ 663,115</u> | <u>\$ 159,377</u> |
| Noncash Investing, Capital and Financing Activities: | | | | | | |
| Increase (Decrease) in capital assets acquired through accounts payable | (42,720) | 30,172 | 24,148 | 56,999 | (4,299) | (63,734) |
| Capital assets acquired through SRF loans | - | - | - | - | 3,529,974 | - |
| Capital assets acquired through ARRA contributions | - | - | - | - | 1,139,638 | - |
| Capital assets transferred between utilities | - | (24,017) | 24,017 | - | - | - |
| Increase (Decrease) in capital assets acquired through retainage payable net of amounts included in acquisitions through loans and contributions | - | - | - | - | 112,218 | - |

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

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 \$10,697,517 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. A total of \$51,471 was capitalized during 2010.

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, 2010, the Utilities had deposit balances in the amount of \$17,425,357.

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.

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

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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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| <u>Electric Utility</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 199,435 | \$ 74,335 | \$ - | \$ 273,770 |
| Construction in progress | <u>225,735</u> | <u>2,108,826</u> | <u>939,291</u> | <u>1,395,270</u> |
| Total capital assets, not being depreciated | <u>425,170</u> | <u>2,183,161</u> | <u>939,291</u> | <u>1,669,040</u> |

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| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| <u>Electric Utility (continued)</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | 199,435 | 74,335 | - | 273,770 |
| Construction in progress | 225,735 | 2,108,826 | 939,291 | 1,395,270 |
| Total capital assets, not being depreciated | 425,170 | 2,183,161 | 939,291 | 1,669,040 |
| Capital assets, being depreciated: | | | | |
| Buildings | 3,869,089 | 4,019 | 1,836 | 3,871,272 |
| Improvements other than buildings | 42,066,192 | 772,596 | 114,113 | 42,724,675 |
| Machinery and equipment | 1,738,564 | 162,676 | 40,299 | 1,860,941 |
| Totals | 47,673,845 | 939,291 | 156,248 | 48,456,888 |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,621,167) | (116,072) | (1,836) | (2,735,403) |
| Improvements other than buildings | (28,178,979) | (1,267,219) | (114,113) | (29,332,085) |
| Machinery and equipment | (1,109,148) | (126,103) | (40,299) | (1,194,952) |
| Totals | (31,909,294) | (1,509,394) | (156,248) | (33,262,440) |
| Total capital assets, being depreciated, net | 15,764,551 | (570,103) | - | 15,194,448 |
| Total capital assets, net | <u>\$ 16,189,721</u> | <u>\$ 1,613,058</u> | <u>\$ 939,291</u> | <u>\$ 16,863,488</u> |
| <u>Peru Water Utility</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 36,766 | \$ - | \$ - | \$ 36,766 |
| Construction in progress | - | 76,982 | 76,982 | - |
| Total capital assets, not being depreciated | 36,766 | 76,982 | 76,982 | 36,766 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,510,494 | 634 | 289 | 1,510,839 |
| Improvements other than buildings | 11,674,161 | 39,067 | 4,784 | 11,708,444 |
| Machinery and equipment | 1,651,057 | 37,281 | 41,590 | 1,646,748 |
| Total capital assets, being depreciated | <u>\$ 14,835,712</u> | <u>\$ 76,982</u> | <u>\$ 46,663</u> | <u>\$ 14,866,031</u> |
| <u>Grissom Water Utility</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 31,500 | \$ - | \$ - | \$ 31,500 |
| Construction in progress | - | 97,428 | 97,428 | - |
| Total capital assets, not being depreciated | 31,500 | 97,428 | 97,428 | 31,500 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,525,754 | 45,328 | - | 1,571,082 |
| Improvements other than buildings | 1,430,616 | 3,720 | - | 1,434,336 |
| Machinery and equipment | 728,630 | 48,380 | - | 777,010 |
| Total capital assets, being depreciated | <u>\$ 3,685,000</u> | <u>\$ 97,428</u> | <u>\$ -</u> | <u>\$ 3,782,428</u> |

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(Continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| <u>Water Utilities Combined</u> | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ (645,745) | \$ (45,050) | \$ (289) | \$ (690,506) |
| Improvements other than buildings | (3,622,442) | (196,574) | (4,784) | (3,814,232) |
| Machinery and equipment | (810,783) | (65,432) | (17,573) | (858,642) |
| Totals | <u>(5,078,970)</u> | <u>(307,056)</u> | <u>(22,646)</u> | <u>(5,363,380)</u> |
| Total capital assets, being depreciated, net | <u>13,441,742</u> | <u>(132,645)</u> | <u>24,017</u> | <u>13,285,080</u> |
| Total capital assets, net | <u>\$ 13,510,008</u> | <u>\$ 41,765</u> | <u>\$ 198,427</u> | <u>\$ 13,353,346</u> |
| <u>Peru Wastewater Utility</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 254,907 | \$ - | \$ - | \$ 254,907 |
| Construction in progress | - | 221,647 | 221,647 | - |
| Total capital assets, not being depreciated | <u>254,907</u> | <u>221,647</u> | <u>221,647</u> | <u>254,907</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 7,684,426 | 632 | 288 | 7,684,769 |
| Improvements other than buildings | 16,463,611 | 138,052 | 3,372 | 16,598,290 |
| Machinery and equipment | 9,191,961 | 82,963 | - | 9,274,924 |
| Total capital assets, being depreciated | <u>\$ 33,339,997</u> | <u>\$ 221,647</u> | <u>\$ 3,660</u> | <u>\$ 33,557,983</u> |
| <u>Grissom Wastewater Utility</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 50,400 | \$ - | \$ - | \$ 50,400 |
| Construction in progress | 3,920,432 | 4,995,461 | 8,915,893 | - |
| Total capital assets, not being depreciated | <u>3,970,832</u> | <u>4,995,461</u> | <u>8,915,893</u> | <u>50,400</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,165,705 | 6,952,613 | 122,530 | 7,995,788 |
| Improvements other than buildings | 1,998,694 | 96,608 | 877 | 2,094,425 |
| Machinery and equipment | 1,123,503 | 1,866,672 | - | 2,990,175 |
| Total capital assets, being depreciated | <u>\$ 4,287,902</u> | <u>\$ 8,915,893</u> | <u>\$ 123,407</u> | <u>\$ 13,080,388</u> |

PERU MUNICIPAL UTILITIES
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(Continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------------|---------------------|----------------------|
| <u>Wastewater Utilities Combined</u> | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ (749,973) | \$ (177,003) | \$ (122,818) | \$ (804,157) |
| Improvements other than buildings | (4,164,823) | (369,247) | (4,249) | (4,529,821) |
| Machinery and equipment | (1,906,786) | (276,934) | - | (2,183,720) |
| | <u>(6,821,582)</u> | <u>(823,184)</u> | <u>(127,067)</u> | <u>(7,517,698)</u> |
| Totals | | | | |
| Total capital assets, being depreciated, net | <u>30,806,317</u> | <u>8,314,356</u> | <u>-</u> | <u>39,120,673</u> |
| Total capital assets, net | <u>\$ 35,032,057</u> | <u>\$ 13,531,463</u> | <u>\$ 9,137,540</u> | <u>\$ 39,425,980</u> |
| <u>Storm Water Utility</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 216,376 | \$ - | \$ - | \$ 216,376 |
| Construction in progress | - | 217,275 | 217,275 | - |
| | <u>216,376</u> | <u>217,275</u> | <u>217,275</u> | <u>216,376</u> |
| Total capital assets, not being depreciated | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings | 597 | 42 | - | 639 |
| Improvements other than buildings | 1,335,954 | 217,185 | - | 1,553,139 |
| Machinery and equipment | 85,238 | 49 | - | 85,287 |
| | <u>1,421,789</u> | <u>217,275</u> | <u>-</u> | <u>1,639,064</u> |
| Totals | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | (16) | (12) | - | (28) |
| Improvements other than buildings | (68,987) | (26,719) | - | (95,706) |
| Machinery and equipment | (7,107) | (6,725) | - | (13,832) |
| | <u>(76,110)</u> | <u>(33,456)</u> | <u>-</u> | <u>(109,566)</u> |
| Totals | | | | |
| Total capital assets, being depreciated, net | <u>1,345,679</u> | <u>183,819</u> | <u>-</u> | <u>1,529,498</u> |
| Total capital assets, net | <u>\$ 1,562,055</u> | <u>\$ 401,095</u> | <u>\$ 217,275</u> | <u>\$ 1,745,874</u> |

C. Construction Commitments

Construction work in progress is composed of the following:

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| <u>Project</u> | 2010 | |
|-------------------------|----------------------------|------------|
| | Expended to December 31 | Committed |
| Electric Utility: | | |
| Substation #6 | \$ 1,207,370 | \$ 450,000 |
| Boiler equipment | 9,758 | - |
| Overhead Projects | 127,836 | 66,335 |
| Underground Conversions | 50,306 | 65,000 |
| Total Electric Utility | \$ 1,395,270 | \$ 581,335 |

D. Interfund Activity

Interfund Transfers

Interfund transfers at December 31, 2010, were as follows:

| Transfer From | Transfer To | 2010 |
|--------------------|--------------|------------|
| Electric Utility | General Fund | \$ 470,495 |
| Peru Water Utility | General Fund | 59,734 |
| Total | | \$ 530,229 |

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, 2010, the outstanding principal balance of the loan was \$4,905,197 leaving \$794,803 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:

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| | <u>Principal</u> | <u>Interest</u> |
|--------------------------|----------------------|---------------------|
| Peru Wastewater Utility: | | |
| 2011 | \$ 880,000 | \$ 361,050 |
| 2012 | 910,000 | 335,530 |
| 2013 | 935,000 | 309,140 |
| 2014 | 960,000 | 282,024 |
| 2015 | 990,000 | 254,184 |
| 2016-2020 | 5,390,000 | 823,597 |
| 2021-2025 | <u>2,385,000</u> | <u>104,254</u> |
| Totals | <u>\$ 12,450,000</u> | <u>\$ 2,469,779</u> |

| | | |
|----------------------------------|---------------------|---------------------|
| Peru/Grissom Wastewater Utility: | | |
| 2011 | \$ 192,000 | \$ 205,186 |
| 2012 | 198,000 | 198,162 |
| 2013 | 206,000 | 190,902 |
| 2014 | 214,000 | 183,351 |
| 2015 | 220,000 | 175,529 |
| 2016-2020 | 1,233,000 | 750,085 |
| 2021-2025 | 1,475,000 | 507,347 |
| 2026-2031 | <u>1,167,197</u> | <u>219,960</u> |
| Totals | <u>\$ 4,905,197</u> | <u>\$ 2,430,522</u> |

Note - This schedule is proposed and has not been finalized yet.

| | | |
|----------------------|-------------------|-------------------|
| Storm Water Utility: | | |
| 2011 | \$ 42,954 | \$ 19,407 |
| 2012 | 44,723 | 17,638 |
| 2013 | 46,663 | 15,698 |
| 2014 | 48,637 | 13,724 |
| 2015 | 50,694 | 11,667 |
| 2016-2019 | <u>225,117</u> | <u>24,327</u> |
| Totals | <u>\$ 458,789</u> | <u>\$ 102,461</u> |

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2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

| <u>2010</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Principal Due Within One Year</u> |
|------------------------------------|------------------------------|---------------------|-------------------|---------------------------|--|
| Loans payable: | | | | | |
| Peru Wastewater Utility | \$ 13,305,000 | \$ - | \$ 855,000 | \$ 12,450,000 | \$ 880,000 |
| Grissom Wastewater Utility | 1,375,223 | 3,529,974 | - | 4,905,197 | 192,000 |
| Storm Water Utility | 500,000 | - | 41,211 | 458,789 | 42,954 |
| Total loans payable | <u>15,180,223</u> | <u>3,529,974</u> | <u>896,211</u> | <u>17,813,986</u> | <u>1,114,954</u> |
| Compensated absences: | | | | | |
| Electric Utility | 105,413 | 4,508 | 46,481 | 63,440 | - |
| Peru Water Utility | 26,024 | 1,093 | 11,731 | 15,386 | - |
| Peru Wastewater Utility | 23,483 | 2,218 | 7,982 | 17,719 | - |
| Grissom Water Utility | 8,379 | 523 | 3,414 | 5,488 | - |
| Grissom Wastewater Utility | 3,660 | 1,277 | 821 | 4,116 | - |
| Storm Water Utility | 2,934 | 742 | 316 | 3,360 | - |
| Total compensated absences payable | <u>169,893</u> | <u>10,361</u> | <u>70,745</u> | <u>109,509</u> | <u>-</u> |
| Total Long-term liabilities | <u>\$ 15,350,116</u> | <u>\$ 3,540,335</u> | <u>\$ 966,956</u> | <u>\$ 17,923,495</u> | <u>\$ 1,114,954</u> |

F. Revenues Pledged

The Utilities have pledged future Grissom Wastewater operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2009. Proceeds from the bonds provided financing for upgrading the wastewater facilities. The bonds are payable solely from Grissom Wastewater net revenues and are payable through 2021.

The Utilities have pledged future Peru Wastewater operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2000. Proceeds from the bonds provided financing for upgrading the wastewater facilities. The bonds are payable solely from Peru Wastewater net revenues and are payable through 2023.

G. Restricted Assets

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

| | <u>Peru</u> | <u>Grissom</u> |
|--------------------------------|------------------|----------------|
| Electric Utility: | | |
| Customer deposits | \$ 176,450 | \$ - |
| Health and Flex claims reserve | 245,157 | - |
| Depreciation fund | <u>4,194,350</u> | <u>-</u> |
| Total Electric Utility | <u>4,615,957</u> | <u>-</u> |

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| | Peru | Grissom |
|----------------------------|--------------|--------------|
| Water Utilities: | | |
| Customer deposits | 30,060 | 17,580 |
| Depreciation fund | 763,384 | 231,963 |
| Total Water Utility | 793,444 | 249,543 |
| Wastewater Utilities: | | |
| Customer deposits | 27,425 | 15,205 |
| Construction cash | 334,837 | - |
| Retainage cash | 93,871 | 623,417 |
| Debt covenant funds: | | |
| Bond and interest | 276,351 | 382,726 |
| Debt service reserve | 1,245,530 | 125,838 |
| Depreciation fund | 1,321,612 | 464,888 |
| Total Wastewater Utilities | 3,299,626 | 1,612,074 |
| Storm Water Utility: | | |
| Depreciation fund | 126,873 | - |
| Total restricted assets | \$ 8,835,900 | \$ 1,861,617 |

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. 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

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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:

| | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|--|-------------------|-------------------|-------------------|
| Unpaid claims, beginning of fiscal year | \$ 170,389 | \$ 294,564 | \$ 183,941 |
| Incurred claims and changes in estimates | 766,537 | 378,485 | 674,878 |
| Claim payments | <u>(642,362)</u> | <u>(489,108)</u> | <u>(615,066)</u> |
| Unpaid claims, end of fiscal year | <u>\$ 294,564</u> | <u>\$ 183,941</u> | <u>\$ 243,753</u> |

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.

B. Other 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. 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, 3 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.

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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, 2010, expenditures totaling \$51,234 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 10,449 customers.

2. Water Utility

The current rate structure for 4,794 customers in the Peru service area was approved by the Indiana Utility Regulatory Commission (IURC) on April 14, 1994.

Rates for 1,084 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 4,833 customers in the Peru service area was approved by the Peru City Council on April 10, 2000. The rate structure for 1,072 additional customers in the Grissom Aeroplex service area was approved by the Peru City Council on May 4, 2009.

4. Storm Water Utility

The current rate structure was approved by the Peru City Council on June 7, 2004. The Utility has 4,794 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 40 municipalities in Indiana. IMPA purchases power from private generating sources and from four municipal power generating stations, one of which is owned by the Peru Electric Utility. A contractual agreement between IMPA and the Peru Electric Utility requires the Utility to sell all of its generated power to IMPA and 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 through 2010:

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| | 2008 | | 2009 | | 2010 | |
|---------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| | Megawatt Hours | Average Price | Megawatt Hours | Average Price | Megawatt Hours | Average Price |
| Power sold to IMPA | 54,884 | \$ 39.47 | 10,384 | \$ 42.28 | 867 | \$ 106.03 |
| Power purchased from IMPA | 263,793 | 54.64 | 251,829 | 65.28 | 255,005 | 60.24 |

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 2010 are as follows:

| Customer | Electric Utility | Water Utilities | Wastewater Utilities |
|------------------------------------|---------------------|--------------------|-------------------------|
| Armour Eckrich | 14.3% | 1.8% | 4.4% |
| Miami County Correctional Facility | 6.3% | 15.4% | 16.9% |

F. Pension Plan

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 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 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

PERU MUNICIPAL UTILITIES
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(Continued)

Funding Policy

PERF members are required to contribute 3 percent of their annual covered salary. The Utility is required to contribute at an actuarially determined rate; the current rate is 8 percent 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 2010, the Utilities' required and actual contributions were 78 percent of the Utilities' annual pension cost of \$365,668 for PERF.

Actuarial Information for the Above Plan

| | PERF |
|---|--|
| Annual required contribution | \$ 364,471 |
| Interest on net pension obligation | (8,578) |
| Adjustment to annual required contribution | 9,775 |
| Annual pension cost | 365,668 |
| Contributions made | 284,082 |
| Increase (decrease) in net pension obligation | 81,586 |
| Net pension obligation, beginning of year | (118,312) |
| Net pension obligation, end of year | \$ (36,726) |
| Contribution rates: | |
| Government | 8% |
| Plan members | 3% |
| Actuarial valuation date | 06-30-10 |
| Actuarial cost method | Entry age normal cost |
| Amortization method | Level dollar, closed amortization period |
| Amortization period | 30 years |
| Amortization period (from date) | 06-30-08 |
| Asset valuation method | 75% of expected actuarial value plus 25% of market value |

PERU MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

| Actuarial Assumptions | PERF |
|------------------------------------|-------|
| Investment rate of return | 7.00% |
| Projected future salary increases: | |
| Total | 4.00% |
| Cost-of-living adjustments | 1.00% |

| Three Year Trend Information | | | | |
|------------------------------|-------------|---------------------------------|-------------------------------------|------------------------------|
| | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| PERF | 06-30-08 | \$ 275,422 | 99.5% | \$ (122,459) |
| | 06-30-09 | 304,247 | 98.6% | (118,312) |
| | 06-30-10 | 365,668 | 78.0% | (36,736) |

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of July 1, 2010, the most recent actuarial valuation date is as follows:

| Retirement Plan | 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) |
|-----------------|---|---|--|--------------------------|-------------------------------------|---|
| PERF | \$ 4,027,353 | \$ 6,853,091 | \$ 2,825,738 | 59% | \$ 3,628,204 | 78% |

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) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 07-01-08 | \$ 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%) |
| 07-01-10 | 4,027,353 | 6,853,091 | (2,825,738) | 59% | 3,628,204 | (78%) |

PERU MUNICIPAL UTILITIES
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EXIT CONFERENCE

The contents of this report were discussed on June 6, 2011, with Stanley Akers, Utility Service Board President; 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.