

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF PERU
MIAMI COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
08/19/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jackquan E. Gray	01-01-12 to 12-31-15
Mayor	James R. Walker	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	James R. Walker	01-01-12 to 12-31-15
President of the Common Council	James R. Walker	01-01-12 to 12-31-15
President of Utility Service Board	Stanley Akers	01-01-12 to 12-31-13
Utilities General Manager	Roger B. Merriman	01-01-12 to 12-31-13
Utilities Office Manager	Leah Starkey	01-01-12 to 12-31-13
Superintendent of Electric Utility - Power Plant	Josh Chance	01-01-12 to 12-31-13
Superintendent of Electric Utility - Transmission and Distribution	Curtis Bankston	01-01-12 to 12-31-13
Superintendent of Division of Water Management	Mike Dahlquist	01-01-12 to 12-31-13
Storm Water Coordinator	Jamin Beisiegel	01-01-12 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Peru (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 16, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

July 16, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of Peru (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated July 16, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 and 2012-02 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Peru's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

July 16, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF PERU
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
GENERAL	\$ 723,649	\$ 4,402,853	\$ 4,280,626	\$ 845,876
MOTOR VEHICLE HIGHWAY	189,916	467,381	594,437	62,860
LOCAL ROAD & STREET	39,573	47,703	75,000	12,276
AVIATION COMMISSION	21,156	77,651	84,582	14,225
PARKING METER	1,777	2,120	-	3,897
PARK NONREVERTING	5,895	5,060	8,014	2,941
UNSAFE BLDG/INSP/ENG	150,073	300	-	150,373
CRIMINAL INVESTIGATION	10,624	6,992	7,940	9,676
TRASH COLLECTION	-	20,426	-	20,426
BOND PROCEEDS/PROJECT	2,928	1,370,839	46,918	1,326,849
LOCAL LAW ENFORCE CONTINUING EDUCATION	2,952	11,804	2,382	12,374
PERPETUATION	1,279	5,642	-	6,921
PARK	211	383,267	375,338	8,140
THE RAINY DAY	606,550	-	-	606,550
C.E.D.I.T.	160,133	1,108,816	877,384	391,565
LEVY EXCESS	18,439	-	-	18,439
FIRE TERRITORY	808,779	2,674,299	3,003,361	479,717
AIRPORT TAXIWAY/FAA GRAN	-	133,387	133,386	1
C.C.I.	114,850	30,281	49,600	95,531
CUMULATIVE CAPITAL DEVELO	206,688	89,581	12,400	283,869
PARK NONREVERTING CAPITAL	1,211	98	-	1,309
FIRE TERRITORY DEBT/EQUIP	140,633	86,357	-	226,990
GOLF IRRIGATION SYSTEM	32,932	25,394	35,028	23,298
POLICE PENSION	(38,107)	557,087	473,480	45,500
FIRE PENSION	(61,600)	781,868	668,285	51,983
CITY COURT	1,601	111,489	110,498	2,592
PUBLIC SAFETY LOIT	589,870	642,599	548,952	683,517
DEBT SERVICE	29,900	133,886	217,906	(54,120)
PERU METRO FIRE	6,490	7,972	10,586	3,876
CABLE TELEVISION	159,028	22,156	12,666	168,518
COURT COST - DUE COUNTY	-	8,638	7,910	728
USER FEE	15,706	216	-	15,922
TRAFFIC/ORDINANCE VIOLATION	64,250	31,477	53,379	42,348
SPECIAL STREET & SANITATION CCI	203,811	7,800	173,500	38,111
RIVERFRONT WALKWAY	3,439	-	-	3,439
IU CHILD SEAT GRANT	236	-	-	236
EVIDENCE TRUST	10,002	-	-	10,002
PAYROLL	698	34	-	732
PAYROLL - NET WAGES	-	150	150	-
PAYROLL - FEDERAL W/H	(201)	983,733	983,733	(201)
PAYROLL - FICA	-	520,356	520,356	-
PAYROLL - MEDICARE	-	209,006	209,006	-
PAYROLL - STATE W/H	31,768	284,529	289,701	26,596
PAYROLL - COUNTY W/H	20,868	180,413	184,100	17,181
PAYROLL - AFLAC 125	1,605	15,309	15,470	1,444
PAYROLL - HEALTH SAVINGS ACCOUNT	436	88,495	88,531	400
PAYROLL - VISION	415	1,843	1,840	418
PAYROLL - DIRECT DEPOSIT	(1,849)	3,882,376	3,882,376	(1,849)
PAYROLL - DEFERRED COMP.	-	34,705	34,705	-
PAYROLL - CIVIL PERF	9,995	38,316	48,293	18
PAYROLL - VOLUNTARY CIVIL PERF	389	2,021	2,410	-
PAYROLL - FIRE RETIREMENT	19,009	70,412	86,733	2,688
PAYROLL - POLICE RETIREMENT	17,750	65,156	80,323	2,583

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

CITY OF PERU
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
PAYROLL - RETIREMENT ANTHEM LIFE	84	48	-	132
PAYROLL - AFLAC NOT 125	355	5,369	5,216	508
PAYROLL - BACK TAXES	-	345	345	-
PAYROLL - BOSTON MUTUAL	357	1,945	1,964	338
PAYROLL - COLONIAL LIFE	27	325	325	27
PAYROLL - GOLF MEMBERSHIP	-	2,285	2,285	-
PAYROLL - PRUDENTIAL LIFE	59	709	709	59
PAYROLL - SUPPORT	100	50,344	49,710	734
PAYROLL - FIRE UNION DUES	1,392	5,424	5,920	896
PAYROLL - POLICE UNION DUES	360	1,524	1,548	336
PAYROLL - UNITED WAY	152	1,405	1,325	232
PAYROLL - WASHINGTON NATION	9	112	112	9
PAYROLL - YMCA	88	6,190	5,842	436
PAYROLL - GREAT WEST RETIREMENT	(2,740)	-	-	(2,740)
PAYROLL - VERIZON DATA	-	900	900	-
Payroll - Garnishment: CR BABBS	-	3,317	3,060	257
PAYROLL - GARNISHMENT - AL	-	2,000	2,000	-
PAYROLL - GARNISHMENT - JKennedy	-	5,561	5,561	-
Payroll - Garnishment - S. Thoden	-	405	193	212
Garnishment: K. Childress	-	698	698	-
Payroll - Garnishment - RLS	221	3,319	3,540	-
Garnishment - HJKlock	229	3,199	3,428	-
Support - Marcus Cook - III	-	520	520	-
Payroll - Garnishment: R. Serdar	30	90	120	-
UNAPPROPRIATED PAYROLL	(45)	-	-	(45)
PAYROLL DIRECT DEP/HSA	6,045	3,971,307	3,971,307	6,045
ELECTRIC OPERATING	3,099,373	22,967,471	23,043,040	3,023,804
ELECTRIC DEPRECIATION	5,966,247	1,707,591	1,079,087	6,594,751
ELECTRIC DEPOSITS	197,500	96,940	94,790	199,650
ELECTRIC HEALTH/FLEX ACCT	167,778	886,902	834,075	220,605
STORMWATER	191,344	373,119	270,765	293,698
STORMWATER IMPROVEMENT	330,326	60,708	162,005	229,029
WASTEWATER OPERATING	411,482	3,407,187	3,389,964	428,705
WASTEWATER DEPOSITS	32,620	14,320	15,140	31,800
WASTEWATER ESCROW CASH	78,123	188	-	78,311
WASTEWATER BOND	-	1,246,140	1,245,558	582
WASTEWATER DEPRECIATION	1,592,893	787,642	1,036,352	1,344,183
WASTEWATER CONSTRUCTION	335,920	881	80	336,721
GRISSOM WASTEWATER OPER	1,619,566	1,108,227	1,091,334	1,636,459
GRISSOM WASTEWATER IMP	516,075	284,652	108,368	692,359
GRISSOM WASTEWATER DEP	16,315	7,950	8,070	16,195
GRISSOM WW ESCROW ACCT	29,147	21	29,168	-
GRISSOM WW BOND&INT BNY	183,298	481,383	515,497	149,184
WASTEWATER DEBT SVC RES	1,245,502	28	-	1,245,530
GRISSOM WW DEBT SVC BNY	-	183,298	183,298	-
WATER OPERATING	334,837	1,482,681	1,726,453	91,065
WATER DEPRECIATION	679,610	384,848	109,740	954,718
WATER DEPOSITS	34,570	18,010	15,335	37,245
GRISSOM WATER OPERATING	343,633	706,018	734,648	315,003
GRISSOM WATER DEPREC	270,027	80,944	188,462	162,509
GRISSOM WATER DEPOSITS	18,840	9,080	9,395	18,525
Totals	<u>\$ 22,027,506</u>	<u>\$ 59,995,863</u>	<u>\$ 58,248,537</u>	<u>\$ 23,774,832</u>

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

CITY OF PERU
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, stormwater, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF PERU
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF PERU
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

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

CITY OF PERU
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City 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.

Note 5. Risk Management

The City may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City 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 members' 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.

INPRS 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. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

CITY OF PERU
NOTES TO FINANCIAL STATEMENT
(Continued)

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

CITY OF PERU
NOTES TO FINANCIAL STATEMENT
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Holding Corporations

The City has entered into a capital lease with the Peru Municipal Building Corporation and the Peru Municipal Facilities Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessors have been determined to be related parties of the City. Lease payments during the year 2012 totaled \$90,500 and \$325,000, respectively.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD & STREET	AVIATION COMMISSION	PARKING METER	PARK NONREVERTING	UNSAFE BLDG/INSP/ENG
Cash and investments - beginning	\$ 723,649	\$ 189,916	\$ 39,573	\$ 21,156	\$ 1,777	\$ 5,895	\$ 150,073
Receipts:							
Taxes	2,001,331	145,055	-	52,845	-	-	-
Licenses and permits	100,516	-	-	-	-	-	-
Intergovernmental	1,977,544	320,436	47,585	4,284	-	-	-
Charges for services	3,545	1,890	-	20,522	2,120	-	-
Fines and forfeits	24,244	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	295,673	-	118	-	-	5,060	300
Total receipts	<u>4,402,853</u>	<u>467,381</u>	<u>47,703</u>	<u>77,651</u>	<u>2,120</u>	<u>5,060</u>	<u>300</u>
Disbursements:							
Personal services	1,938,161	594,437	-	-	-	-	-
Supplies	298,600	-	75,000	10,000	-	-	-
Other services and charges	1,805,765	-	-	69,067	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	5,422	-	-	5,515	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	232,678	-	-	-	-	8,014	-
Total disbursements	<u>4,280,626</u>	<u>594,437</u>	<u>75,000</u>	<u>84,582</u>	<u>-</u>	<u>8,014</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>122,227</u>	<u>(127,056)</u>	<u>(27,297)</u>	<u>(6,931)</u>	<u>2,120</u>	<u>(2,954)</u>	<u>300</u>
Cash and investments - ending	<u>\$ 845,876</u>	<u>\$ 62,860</u>	<u>\$ 12,276</u>	<u>\$ 14,225</u>	<u>\$ 3,897</u>	<u>\$ 2,941</u>	<u>\$ 150,373</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	CRIMINAL INVESTIGATION	TRASH COLLECTION	BOND PROCEEDS/ PROJECT	LOCAL LAW ENFORCE CONTINUING EDUCATION	PERPETUATION	PARK	THE RAINY DAY
Cash and investments - beginning	\$ 10,624	\$ -	\$ 2,928	\$ 2,952	\$ 1,279	\$ 211	\$ 606,550
Receipts:							
Taxes	-	-	-	-	-	211,741	-
Licenses and permits	-	-	-	3,990	-	-	-
Intergovernmental	-	-	-	-	-	17,167	-
Charges for services	-	20,426	-	-	-	154,359	-
Fines and forfeits	-	-	-	3,073	5,642	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	6,992	-	1,370,839	4,741	-	-	-
Total receipts	<u>6,992</u>	<u>20,426</u>	<u>1,370,839</u>	<u>11,804</u>	<u>5,642</u>	<u>383,267</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	-	-	248,257	-
Supplies	-	-	-	-	-	73,919	-
Other services and charges	7,940	-	-	2,382	-	47,685	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	46,918	-	-	5,477	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>7,940</u>	<u>-</u>	<u>46,918</u>	<u>2,382</u>	<u>-</u>	<u>375,338</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(948)</u>	<u>20,426</u>	<u>1,323,921</u>	<u>9,422</u>	<u>5,642</u>	<u>7,929</u>	<u>-</u>
Cash and investments - ending	<u>\$ 9,676</u>	<u>\$ 20,426</u>	<u>\$ 1,326,849</u>	<u>\$ 12,374</u>	<u>\$ 6,921</u>	<u>\$ 8,140</u>	<u>\$ 606,550</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	C.E.D.I.T.	LEVY EXCESS	FIRE TERRITORY	AIRPORT TAXIWAY/ FAA GRAN	C.C.I.	CUMULATIVE CAPITAL DEVELO	PARK NONREVERTING CAPITAL
Cash and investments - beginning	\$ 160,133	\$ 18,439	\$ 808,779	\$ -	\$ 114,850	\$ 206,688	\$ 1,211
Receipts:							
Taxes	-	-	2,143,383	-	-	82,863	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	518,248	-	521,538	133,387	30,281	6,718	-
Charges for services	-	-	-	-	-	-	98
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	590,568	-	9,378	-	-	-	-
Total receipts	<u>1,108,816</u>	<u>-</u>	<u>2,674,299</u>	<u>133,387</u>	<u>30,281</u>	<u>89,581</u>	<u>98</u>
Disbursements:							
Personal services	-	-	1,618,996	-	-	-	-
Supplies	-	-	27,432	-	-	-	-
Other services and charges	312,143	-	654,611	-	-	-	-
Debt service - principal and interest	-	-	117,838	-	-	-	-
Capital outlay	-	-	314,852	-	49,600	12,400	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	565,241	-	269,632	133,386	-	-	-
Total disbursements	<u>877,384</u>	<u>-</u>	<u>3,003,361</u>	<u>133,386</u>	<u>49,600</u>	<u>12,400</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>231,432</u>	<u>-</u>	<u>(329,062)</u>	<u>1</u>	<u>(19,319)</u>	<u>77,181</u>	<u>98</u>
Cash and investments - ending	<u>\$ 391,565</u>	<u>\$ 18,439</u>	<u>\$ 479,717</u>	<u>\$ 1</u>	<u>\$ 95,531</u>	<u>\$ 283,869</u>	<u>\$ 1,309</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	FIRE TERRITORY DEBT/EQUIP	GOLF IRRIGATION SYSTEM	POLICE PENSION	FIRE PENSION	CITY COURT	PUBLIC SAFETY LOIT	DEBT SERVICE
Cash and investments - beginning	\$ 140,633	\$ 32,932	\$ (38,107)	\$ (61,600)	\$ 1,601	\$ 589,870	\$ 29,900
Receipts:							
Taxes	76,092	-	61,653	75,493	-	-	123,845
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	10,265	-	4,998	6,121	-	642,599	10,041
Charges for services	-	25,394	-	-	111,489	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	490,436	700,254	-	-	-
Total receipts	<u>86,357</u>	<u>25,394</u>	<u>557,087</u>	<u>781,868</u>	<u>111,489</u>	<u>642,599</u>	<u>133,886</u>
Disbursements:							
Personal services	-	-	1,850	1,850	-	534,833	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	471,630	666,435	110,498	-	-
Debt service - principal and interest	-	-	-	-	-	-	217,906
Capital outlay	-	-	-	-	-	14,119	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	35,028	-	-	-	-	-
Total disbursements	<u>-</u>	<u>35,028</u>	<u>473,480</u>	<u>668,285</u>	<u>110,498</u>	<u>548,952</u>	<u>217,906</u>
Excess (deficiency) of receipts over disbursements	<u>86,357</u>	<u>(9,634)</u>	<u>83,607</u>	<u>113,583</u>	<u>991</u>	<u>93,647</u>	<u>(84,020)</u>
Cash and investments - ending	<u>\$ 226,990</u>	<u>\$ 23,298</u>	<u>\$ 45,500</u>	<u>\$ 51,983</u>	<u>\$ 2,592</u>	<u>\$ 683,517</u>	<u>\$ (54,120)</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PERU METRO FIRE	CABLE TELEVISION	COURT COST - DUE COUNTY	USER FEE	TRAFFIC/ ORDINANCE VIOLATION	SPECIAL STREET & SANITATION CCI	RIVERFRONT WALKWAY
Cash and investments - beginning	\$ 6,490	\$ 159,028	\$ -	\$ 15,706	\$ 64,250	\$ 203,811	\$ 3,439
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	8,638	216	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	7,972	22,156	-	-	31,477	7,800	-
Total receipts	7,972	22,156	8,638	216	31,477	7,800	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	48,189	-	-
Other services and charges	-	-	-	-	5,114	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	76	173,500	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	10,586	12,666	7,910	-	-	-	-
Total disbursements	10,586	12,666	7,910	-	53,379	173,500	-
Excess (deficiency) of receipts over disbursements	(2,614)	9,490	728	216	(21,902)	(165,700)	-
Cash and investments - ending	\$ 3,876	\$ 168,518	\$ 728	\$ 15,922	\$ 42,348	\$ 38,111	\$ 3,439

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	IU CHILD SEAT GRANT	EVIDENCE TRUST	PAYROLL	PAYROLL - NET WAGES	PAYROLL - FEDERAL W/H	PAYROLL - FICA	PAYROLL - MEDICARE
Cash and investments - beginning	\$ 236	\$ 10,002	\$ 698	\$ -	\$ (201)	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	34	150	983,733	520,356	209,006
Total receipts	-	-	34	150	983,733	520,356	209,006
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	150	983,733	520,356	209,006
Total disbursements	-	-	-	150	983,733	520,356	209,006
Excess (deficiency) of receipts over disbursements	-	-	34	-	-	-	-
Cash and investments - ending	\$ 236	\$ 10,002	\$ 732	\$ -	\$ (201)	\$ -	\$ -

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PAYROLL - STATE W/H	PAYROLL - COUNTY W/H	PAYROLL - AFLAC 125	PAYROLL - HEALTH SAVINGS ACCOUNT	PAYROLL - VISION	PAYROLL - DIRECT DEPOSIT	PAYROLL - DEFERRED COMP.
Cash and investments - beginning	\$ 31,768	\$ 20,868	\$ 1,605	\$ 436	\$ 415	\$ (1,849)	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	<u>284,529</u>	<u>180,413</u>	<u>15,309</u>	<u>88,495</u>	<u>1,843</u>	<u>3,882,376</u>	<u>34,705</u>
Total receipts	<u>284,529</u>	<u>180,413</u>	<u>15,309</u>	<u>88,495</u>	<u>1,843</u>	<u>3,882,376</u>	<u>34,705</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	<u>289,701</u>	<u>184,100</u>	<u>15,470</u>	<u>88,531</u>	<u>1,840</u>	<u>3,882,376</u>	<u>34,705</u>
Total disbursements	<u>289,701</u>	<u>184,100</u>	<u>15,470</u>	<u>88,531</u>	<u>1,840</u>	<u>3,882,376</u>	<u>34,705</u>
Excess (deficiency) of receipts over disbursements	<u>(5,172)</u>	<u>(3,687)</u>	<u>(161)</u>	<u>(36)</u>	<u>3</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 26,596</u>	<u>\$ 17,181</u>	<u>\$ 1,444</u>	<u>\$ 400</u>	<u>\$ 418</u>	<u>\$ (1,849)</u>	<u>\$ -</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PAYROLL - CIVIL PERF	PAYROLL - VOLUNTARY CIVIL PERF	PAYROLL - FIRE RETIREMENT	PAYROLL - POLICE RETIREMENT	PAYROLL - RETIREMENT ANTHEM LIFE	PAYROLL - AFLAC NOT 125	PAYROLL - BACK TAXES
Cash and investments - beginning	\$ 9,995	\$ 389	\$ 19,009	\$ 17,750	\$ 84	\$ 355	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	38,316	2,021	70,412	65,156	48	5,369	345
Total receipts	38,316	2,021	70,412	65,156	48	5,369	345
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	48,293	2,410	86,733	80,323	-	5,216	345
Total disbursements	48,293	2,410	86,733	80,323	-	5,216	345
Excess (deficiency) of receipts over disbursements	(9,977)	(389)	(16,321)	(15,167)	48	153	-
Cash and investments - ending	\$ 18	\$ -	\$ 2,688	\$ 2,583	\$ 132	\$ 508	\$ -

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PAYROLL - BOSTON MUTUAL	PAYROLL - COLONIAL LIFE	PAYROLL - GOLF MEMBERSHIP	PAYROLL - PRUDENTIAL LIFE	PAYROLL - SUPPORT	PAYROLL - FIRE UNION DUES	PAYROLL - POLICE UNION DUES
Cash and investments - beginning	\$ 357	\$ 27	\$ -	\$ 59	\$ 100	\$ 1,392	\$ 360
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	<u>1,945</u>	<u>325</u>	<u>2,285</u>	<u>709</u>	<u>50,344</u>	<u>5,424</u>	<u>1,524</u>
Total receipts	<u>1,945</u>	<u>325</u>	<u>2,285</u>	<u>709</u>	<u>50,344</u>	<u>5,424</u>	<u>1,524</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	<u>1,964</u>	<u>325</u>	<u>2,285</u>	<u>709</u>	<u>49,710</u>	<u>5,920</u>	<u>1,548</u>
Total disbursements	<u>1,964</u>	<u>325</u>	<u>2,285</u>	<u>709</u>	<u>49,710</u>	<u>5,920</u>	<u>1,548</u>
Excess (deficiency) of receipts over disbursements	<u>(19)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>634</u>	<u>(496)</u>	<u>(24)</u>
Cash and investments - ending	<u>\$ 338</u>	<u>\$ 27</u>	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 734</u>	<u>\$ 896</u>	<u>\$ 336</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PAYROLL - UNITED WAY	PAYROLL - WASHINGTON NATION	PAYROLL - YMCA	PAYROLL - GREAT WEST RETIREMENT	PAYROLL - VERIZON DATA	Payroll - Garnishment: CR BABBS	PAYROLL - GARNISHMENT - AL
Cash and investments - beginning	\$ 152	\$ 9	\$ 88	\$ (2,740)	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,405	112	6,190	-	900	3,317	2,000
Total receipts	1,405	112	6,190	-	900	3,317	2,000
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,325	112	5,842	-	900	3,060	2,000
Total disbursements	1,325	112	5,842	-	900	3,060	2,000
Excess (deficiency) of receipts over disbursements	80	-	348	-	-	257	-
Cash and investments - ending	\$ 232	\$ 9	\$ 436	\$ (2,740)	\$ -	\$ 257	\$ -

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PAYROLL - GARNISHMENT - JKennedy	Payroll - Garnishment - S. Thoden	Garnishment: K. Childress	Payroll - Garnishment - RLS	Garnishment - HJKlock	Support - Marcus Cook - III	Payroll - Garnishment: R. Serdar
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 221	\$ 229	\$ -	\$ 30
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	<u>5,561</u>	<u>405</u>	<u>698</u>	<u>3,319</u>	<u>3,199</u>	<u>520</u>	<u>90</u>
Total receipts	<u>5,561</u>	<u>405</u>	<u>698</u>	<u>3,319</u>	<u>3,199</u>	<u>520</u>	<u>90</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	<u>5,561</u>	<u>193</u>	<u>698</u>	<u>3,540</u>	<u>3,428</u>	<u>520</u>	<u>120</u>
Total disbursements	<u>5,561</u>	<u>193</u>	<u>698</u>	<u>3,540</u>	<u>3,428</u>	<u>520</u>	<u>120</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>212</u>	<u>-</u>	<u>(221)</u>	<u>(229)</u>	<u>-</u>	<u>(30)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 212</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	UNAPPROPRIATED PAYROLL	PAYROLL DIRECT DEP/HSA	ELECTRIC OPERATING	ELECTRIC DEPRECIATION	ELECTRIC DEPOSITS	ELECTRIC HEALTH/FLEX ACCT	STORMWATER
Cash and investments - beginning	\$ (45)	\$ 6,045	\$ 3,099,373	\$ 5,966,247	\$ 197,500	\$ 167,778	\$ 191,344
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	22,959,077	-	96,940	-	372,550
Other receipts	-	3,971,307	8,394	1,707,591	-	886,902	569
Total receipts	-	3,971,307	22,967,471	1,707,591	96,940	886,902	373,119
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	23,043,040	1,079,087	94,790	834,075	270,765
Other disbursements	-	3,971,307	-	-	-	-	-
Total disbursements	-	3,971,307	23,043,040	1,079,087	94,790	834,075	270,765
Excess (deficiency) of receipts over disbursements	-	-	(75,569)	628,504	2,150	52,827	102,354
Cash and investments - ending	\$ (45)	\$ 6,045	\$ 3,023,804	\$ 6,594,751	\$ 199,650	\$ 220,605	\$ 293,698

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	STORMWATER IMPROVEMENT	WASTEWATER OPERATING	WASTEWATER DEPOSITS	WASTEWATER ESCROW CASH	WASTEWATER BOND	WASTEWATER DEPRECIATION	WASTEWATER CONSTRUCTION
Cash and investments - beginning	\$ 330,326	\$ 411,482	\$ 32,620	\$ 78,123	\$ -	\$ 1,592,893	\$ 335,920
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	2,587,187	14,320	-	-	-	-
Other receipts	60,708	820,000	-	188	1,246,140	787,642	881
Total receipts	<u>60,708</u>	<u>3,407,187</u>	<u>14,320</u>	<u>188</u>	<u>1,246,140</u>	<u>787,642</u>	<u>881</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	162,005	3,389,964	15,140	-	1,245,558	1,036,352	80
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>162,005</u>	<u>3,389,964</u>	<u>15,140</u>	<u>-</u>	<u>1,245,558</u>	<u>1,036,352</u>	<u>80</u>
Excess (deficiency) of receipts over disbursements	<u>(101,297)</u>	<u>17,223</u>	<u>(820)</u>	<u>188</u>	<u>582</u>	<u>(248,710)</u>	<u>801</u>
Cash and investments - ending	<u>\$ 229,029</u>	<u>\$ 428,705</u>	<u>\$ 31,800</u>	<u>\$ 78,311</u>	<u>\$ 582</u>	<u>\$ 1,344,183</u>	<u>\$ 336,721</u>

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	GRISSOM WASTEWATER OPER	GRISSOM WASTEWATER IMP	GRISSOM WASTEWATER DEP	GRISSOM WW ESCROW ACCT	GRISSOM WW BOND&INT BNY	WASTEWATER DEBT SVC RES	GRISSOM WW DEBT SVC BNY
Cash and investments - beginning	\$ 1,619,566	\$ 516,075	\$ 16,315	\$ 29,147	\$ 183,298	\$ 1,245,502	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	1,104,325	-	-	-	-	-	-
Other receipts	3,902	284,652	7,950	21	481,383	28	183,298
Total receipts	1,108,227	284,652	7,950	21	481,383	28	183,298
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	1,091,334	108,368	8,070	-	515,497	-	183,298
Other disbursements	-	-	-	29,168	-	-	-
Total disbursements	1,091,334	108,368	8,070	29,168	515,497	-	183,298
Excess (deficiency) of receipts over disbursements	16,893	176,284	(120)	(29,147)	(34,114)	28	-
Cash and investments - ending	\$ 1,636,459	\$ 692,359	\$ 16,195	\$ -	\$ 149,184	\$ 1,245,530	\$ -

CITY OF PERU
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	WATER OPERATING	WATER DEPRECIATION	WATER DEPOSITS	GRISSOM WATER OPERATING	GRISSOM WATER DEPREC	GRISSOM WATER DEPOSITS	Totals
Cash and investments - beginning	\$ 334,837	\$ 679,610	\$ 34,570	\$ 343,633	\$ 270,027	\$ 18,840	\$ 22,027,506
Receipts:							
Taxes	-	-	-	-	-	-	4,974,301
Licenses and permits	-	-	-	-	-	-	104,506
Intergovernmental	-	-	-	-	-	-	4,251,212
Charges for services	-	-	-	-	-	-	339,843
Fines and forfeits	-	-	-	-	-	-	41,813
Utility fees	1,482,056	-	18,010	705,104	-	9,080	29,348,649
Other receipts	625	384,848	-	914	80,944	-	20,935,539
Total receipts	<u>1,482,681</u>	<u>384,848</u>	<u>18,010</u>	<u>706,018</u>	<u>80,944</u>	<u>9,080</u>	<u>59,995,863</u>
Disbursements:							
Personal services	-	-	-	-	-	-	4,938,384
Supplies	-	-	-	-	-	-	533,140
Other services and charges	-	-	-	-	-	-	4,153,270
Debt service - principal and interest	-	-	-	-	-	-	335,744
Capital outlay	-	-	-	-	-	-	627,879
Utility operating expenses	1,726,453	109,740	15,335	734,648	188,462	9,395	35,861,456
Other disbursements	-	-	-	-	-	-	11,798,664
Total disbursements	<u>1,726,453</u>	<u>109,740</u>	<u>15,335</u>	<u>734,648</u>	<u>188,462</u>	<u>9,395</u>	<u>58,248,537</u>
Excess (deficiency) of receipts over disbursements	<u>(243,772)</u>	<u>275,108</u>	<u>2,675</u>	<u>(28,630)</u>	<u>(107,518)</u>	<u>(315)</u>	<u>1,747,326</u>
Cash and investments - ending	<u>\$ 91,065</u>	<u>\$ 954,718</u>	<u>\$ 37,245</u>	<u>\$ 315,003</u>	<u>\$ 162,509</u>	<u>\$ 18,525</u>	<u>\$ 23,774,832</u>

CITY OF PERU
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Peru Municipal Building Corporation	Peru Fire Station	\$ 87,500	05-30-02	12-31-22
Peru Municipal Facilities Corporation	Northwest Utility Corridor	<u>323,000</u>	07-01-99	12-31-20
Total of annual lease payments		<u>\$ 410,500</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds - 2004	City Improvement Projects	\$ 75,303	\$ 76,603
General obligation bonds - 2012	City Improvement Projects	<u>1,370,000</u>	<u>100,984</u>
Total governmental activities		<u>1,445,303</u>	<u>177,587</u>
Storm Water:			
Notes and loans payable	StormWater Utility Infrastructure	<u>371,105</u>	<u>62,361</u>
Wastewater:			
Notes and loans payable	WasteWater Treatment Project - Peru	10,660,000	1,244,140
Notes and loans payable	WasteWater Treatment Project - Grissom	<u>4,860,000</u>	<u>297,786</u>
Total Wastewater		<u>15,520,000</u>	<u>1,541,926</u>
Totals		<u>\$ 17,336,408</u>	<u>\$ 1,781,874</u>

CITY OF PERU
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 626,488
Infrastructure	85,642,789
Buildings	10,813,049
Improvements other than buildings	6,010,586
Machinery, equipment, and vehicles	9,146,110
Total governmental activities	112,239,022
Electric:	
Land	308,766
Buildings	3,891,937
Improvements other than buildings	45,229,546
Machinery, equipment, and vehicles	1,973,840
Construction in progress	12,335
Total Electric	51,416,424
Storm Water:	
Land	216,376
Buildings	748
Improvements other than buildings	1,753,044
Machinery, equipment, and vehicles	86,668
Total Storm Water	2,056,836
Wastewater:	
Land	326,633
Buildings	15,957,351
Improvements other than buildings	19,259,717
Machinery, equipment, and vehicles	12,520,379
Total Wastewater	48,064,080
Water:	
Land	68,266
Buildings	3,128,632
Improvements other than buildings	13,170,885
Machinery, equipment, and vehicles	2,484,966
Construction in progress	12,000
Total Water	18,864,749
Total capital assets	\$ 232,641,111

CITY OF PERU
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statements presented in this report included the following funds with overdrawn cash balances at end of audit period:

Fund	Amount Overdrawn
Debt Service	\$ (54,120)
Payroll - Federal W/H	(201)
Payroll - Direct Deposit	(1,849)
Payroll - Great West Ret	(2,740)
Unappropriated Payroll	(45)

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS,
MONITORING OF CONTROLS, AND REPORTING**

We noted several deficiencies in the internal control system related to financial transactions, monitoring, and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The Clerk-Treasurer's office has not adequately separated all incompatible activities related to the payroll functions and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Monitoring of Controls: Effective internal control over financial reporting requires the Clerk-Treasurer, or other management, to monitor and assess the quality of the system of internal control in effect at the Clerk-Treasurer's office. We could not verify that the Clerk-Treasurer has performed either an ongoing nor separate evaluation of their system of internal controls. Failure to exercise her oversight responsibility places the Clerk-Treasurer's office at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Clerk-Treasurer's office has no process to identify or communicate corrective actions to improve controls.
3. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

CITY OF PERU
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***LACK OF CONTROLS OVER THE PREPARATION OF THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: the Assistance to Firefighters Grant (CFDA 97.044) was not listed on the SEFA. This grant had receipts of \$347,876 and expenditures of \$269,185 during the calendar year 2012. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statements.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Peru's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as 2012-4. Our opinion on each major federal program is not modified with respect to this matter.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-03, 2012-04, and 2012-05 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

July 16, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF PERU
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Downtown Historic Preservation Design and Implementation	Office of Community and Rural Affairs	14.228	B12DC180001CF-11-115 A159-12-RD-005	\$ 392,008 <u>7,450</u>
Total - Department of Housing and Urban Development				<u>399,458</u>
<u>Department of Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program Edward Byrne Memorial	City of Kokomo	16.738	FY2011	<u>2,839</u>
Total - JAG Program Cluster				<u>2,839</u>
Bulletproof Vest Partnership Program BulletProof Vest	Direct Grant	16.607	FY2012	<u>1,875</u>
Total - Department of Justice				<u>4,714</u>
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Recreational Trails Program CE Nickel Plate Trail	Indiana Department of Transportation	20.219	0401032 FY 11	<u>2,627</u>
Total - Highway Planning and Construction Cluster				<u>2,627</u>
Highway Safety Cluster				
Safety Belt Performance Grants Operation Pull-Over	Indiana Criminal Justice Institute	20.609	OP-12-04-02-27	<u>14,273</u>
Total - Highway Safety Cluster				<u>14,273</u>
Airport Improvement Program				
Taxiway Rehabilitation Taxiway Rehabilitation Airport Layout Plan	Direct Grant	20.106	AIP 3-18-0066-14 AIP 3-18-0066-12 AIP 3-18-0066-07	6,802 99,524 <u>16,495</u>
Total - Airport Improvement Program				<u>122,821</u>
Total - Department of Transportation				<u>139,721</u>
<u>Department of Homeland Security</u>				
Assistance to Firefighters Grant Fire Territory Grant - Communications	Direct Grant	97.044	EMW-2011-FR-00244	<u>269,185</u>
Total federal awards expended				<u>\$ 813,078</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF PERU
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Peru (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2012:

Program Title	Federal CFDA Number	2012
Recreational Trails Program	20.219	\$ 2,627

CITY OF PERU
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
97.044	CDBG – State-Administered CDBG Cluster Assistance to Firefighters Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-01 - LACK OF CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

CITY OF PERU
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

During the audit of the SEFA, we noted the following errors: the Assistance to Firefighters Grant (CFDA 97.044) was not listed on the SEFA. This grant had receipts of \$347,876 and expenditures of \$269,185 during the calendar year 2012. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statements.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2012-02 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS,
MONITORING OF CONTROLS, AND REPORTING***

Within the City of Peru Clerk-Treasurer's office we noted several deficiencies in the internal control system related to financial transactions, monitoring, and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The Clerk-Treasurer's office has not adequately separated all incompatible activities related to the payroll functions and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Monitoring of Controls: Effective internal control over financial reporting requires the Clerk-Treasurer, or other management, to monitor and assess the quality of the system of internal control in effect at the Clerk-Treasurer's office. We could not verify that the Clerk-Treasurer has performed either an ongoing nor separate evaluation of their system of internal controls. Failure to exercise her oversight responsibility places the Clerk-Treasurer's office at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Clerk-Treasurer's office has no process to identify or communicate corrective actions to improve controls.
3. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

CITY OF PERU
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-03 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE STATE ADMINISTERED CDBG CLUSTER

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): B12DC180001CF-11-115
Pass-Through Entity: Office of Community and Rural Affairs

Management of the City of Peru has not established an effective internal control system, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Cash Management; Davis-Bacon Act; Equipment and Real Property Management; Matching; Period of Availability; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program.

OMB Circular A-133, Subpart C, section .300 (b) states:

"The auditee shall: . . . Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect to the program.

CITY OF PERU
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-04 - CASH MANAGEMENT

Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year: EMW-2011-FR-00244
Pass-Through Entity: Direct Grant

The City received funding through the Assistance to Firefighters Grant for project EMW-20110-FR-00244 to purchase firefighting equipment. The Federal Emergency Management Agency Obligating Document for Award stated in part: "Remember, you should request funds when you have an immediate cash need." The City was to maintain procedures to minimize the time elapsing between the transfer and receipt of funds and the subsequent disbursement of said funds.

On May 15, 2012, the City received its one and only grant distribution totaling \$347,876. The first disbursement of these grant funds did not occur until June of 2012. The last disbursement of grant funds was made in September of 2012 leaving an unspent balance of \$78,691. On March 26, 2013, a check for unused funds was issued to the Federal Emergency Management Agency for \$78,691 plus interest charges of \$6,982.

The City failed to establish and implement the internal control procedures to provide adequate assurance that cash management requirements were met.

44 CFR 13.20 (b)(7) states in part:

"Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure that the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transaction reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements."

44 CFR 13.21(c) states:

"Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee."

OMB Circular A-133, Subpart C, section.300 (b) states:

"The auditee shall: . . . Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Surplus cash indicates noncompliance with the cash management requirement as set forth by the grant agreement. Failure to minimize cash on hand may cause future funding to be reduced.

CITY OF PERU
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the City implement the control procedures that will allow for effective and efficient identification of Federal payments to allow timely posting of the funds received to the appropriate fund in the City's accounting records. We also recommended that the City develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds is minimized according to grant requirements.

FINDING 2012-05 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE ASSISTANCE TO FIREFIGHTERS GRANT

Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year: EMW-2011-FR-00244
Pass-Through Entity: Direct Grant

Management of the City of Peru has not established an effective internal control system, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principle; Matching; Period of Availability; and Reporting. The failure to establish an effective internal control system places the City of Peru at risk of noncompliance with the grant agreement and the compliance requirements.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 (b) states:

"The auditee shall: . . . Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect to the program.

City of Peru
35 South Broadway
Peru, In 46970

July 16, 2013

City of Peru Corrective Action Plan

Finding 2012-01 Lack of Controls over the Preparation of the Schedule of Expenditures of Federal Awards

The City of Peru is aware of the schedule of expenditures regarding federal rewards and will ensure the proper reporting of all federal rewards.

Finding 2012-02 Internal Controls Over Financial Transactions, Monitoring of Controls and Reporting

Internal Controls over financial statements:

1. Lack of segregation of duties- In order to comply with segregating duties, the payroll clerk completes the payroll transactions, the Clerk Treasurer completes the task of direct deposit, the payroll clerk prints a report which should in turn match what my direct deposit is showing and the dollar amounts are equal and verified. The payroll clerk enters all new employees into the payroll system and in turn, the Clerk Treasurer will enter that same employee information into multiple other "payroll affected" folders on her computer. The payroll clerk will also print off a report which the Clerk Treasurer will sign to ensure that the employees listed and the amounts listed are true and accurate.
2. Monitoring of controls- The accounts payable clerk is responsible for entering all APV's into the budget system and writing the checks to comply with these APV's. The Board of Works members reviews these APV's and signs the docket sheet to verify this. The Clerk Treasurer also signs this docket sheet after review of the APV's. The accounts payable clerk also reconciles the bank accounts. She will also be printing reports which will inform the Clerk Treasurer of all "deleted" transactions, "void" transactions, and reconciliation of the accounts which will require a signature from the Clerk Treasurer.
3. Preparing Financial Statements- The Clerk Treasurer will review the procedure and attempt to verify and sign all reports which could affect the financial statements after review of such reports.

Federal Agency: U.S. Housing & Urban Development

Federal Program: Community Development Block Grant

CFDA Number: 14.228

Federal Award Year: 2012

Pass Through Entity: Office of Community and Rural Affairs

Finding 2012-03 Internal Controls over compliance requirements that have a direct and material effect to the State Administered CDBG Program

The City of Peru has reviewed the financial statement related to the audit for the year 2012 and we offer the following corrective actions.

Lack of internal controls in relation to the grant- The City of Peru will review our compliance requirements in relation to federal compliance requirements. We will review and attempt to assign duties such that there will be reasonable assurance given in managing the federal funds in compliance with laws, regulations, and the provisions of the contract and grant agreements. However, the City of Peru is limited in the employee base which could be authorized to manage such controls. It would be necessary to hire an additional employee to oversee such projects of grand scale. The City of Peru hired a grant administrator to perform and oversee this grant; however, this did not seem to meet this compliance guideline. Further review by administration will take place before grants are applied for to ensure proper manpower and supervision will be adequate to meet compliance.

Federal Agency: Department of Homeland Security

Federal Program: Assistance to Firefighters Grant

CFDA Number: 97.044

Federal Award Year: 2012

Federal Award Number EMW-2011-FR-00244

Pass Through Entity: Direct Grant

Finding 2012-04 Cash Management

Unfortunately, the City Clerk Treasurer was not notified when drawing down of funds was requested. Therefore, when funds were received, an immediate action was taken to get the proper invoices to get the payments made as quickly as possible; hence, receiving the money mid May and paying it out in June. The invoices could not be paid until they were received in the Clerk Treasurer's office. There were funds left in this grant due to the invoices coming in at a cost lower than had been projected. Firefighter Mark Bowyer was in constant contact with the State of Indiana Dept. of Homeland Security to inquire about how to send the funds back. He was repeatedly told that we needed to fill out the "amendment" to the grant so that we could spend the funds we had been awarded instead of returning this money. The final action by the department was to send a notice requesting the money with interest. After multiple conversations and phone calls, a determination was made by City Administration to send the money back as we finally had the proper information. Consequently, on the very same day that the check was sent, the City of Peru received our award letter that we were now approved to spend the "left over" funds that had not been previously spent. In our opinion, there were errors made on behalf of the firefighter who applied for the grant; however, there were also multiple mistakes by the granting agency when it came to trying to return these funds.

Federal Agency: Department of Homeland Security

Federal Program: Assistance to Firefighters Grant

CFDA Number: 97.044

Federal Award Year: 2012

Federal Award Number EMW-2011-FR-00244

Pass Through Entity: Direct Grant

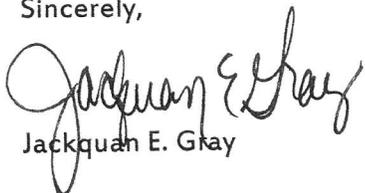
Finding 2012-05 Internal controls over compliance requirements that have a direct and material effect to the Federal Emergency Management Agency

The City of Peru has reviewed the financial statement related to the audit for the year 2012 and we offer the following corrective actions.

Lack of internal controls in relation to the grant- The City of Peru will review our compliance requirements in relation to federal compliance requirements. We will review and attempt to assign duties such that there will be reasonable assurance given in managing the federal funds in compliance with laws, regulations, and the provisions of the contract and grant agreements. The City of Peru hired a grant administrator to perform and oversee this grant; however, this did not seem to meet this compliance guideline.

In order to meet the internal control compliance and cash management of this grant and any future grants, further review by administration will take place before grants are applied for to ensure proper manpower and supervision will be adequate to meet compliance.

Sincerely,



Jackquan E. Gray

City Clerk Treasurer

CITY OF PERU
EXIT CONFERENCE

The contents of this report were discussed on July 16, 2013, with Kevin Shives, Assistant Office Manager; Leah Starkey, Utilities Office Manager; Roger B. Merriman, Utilities General Manager; Stanley Akers, President of the Utility Service Board; Jackquan E. Gray, Clerk-Treasurer; and James R. Walker, Mayor. The Official Response has been made a part of this report and may be found on pages 56.

City of Peru
35 South Broadway
Peru, In 46970

Response to 2012 Audit Results and Comments

Overdrawn cash balances- The payroll cash balances have been in the negative since 2010. They were error postings that cannot be deleted or corrected. This write up has been in the report in the past; however, it cannot be resolved due to not being able to delete an account with activity nor can we post a "false" receipt to make the account positive. We have been in contact with Keystone but they cannot give us instruction on how to correct this either. Unfortunately, the debt service is also overdrawn due to the fact that the amount that is levied into the debt service account is never sufficient. This amount also cannot be changed. The amortization schedules are given to our field representative; therefore, I cannot understand why a levy large enough to pay the debt is never given to this account.

Internal Controls over financial statements:

1. Lack of segregation of duties- In order to comply with segregating duties, the payroll clerk completes the payroll transactions, the Clerk Treasurer completes the task of direct deposit, the payroll clerk prints a report which should in turn match what my direct deposit is showing and the dollar amounts are equal and verified. The payroll clerk enters all new employees into the payroll system and in turn, the Clerk Treasurer will enter that same employee information into multiple other "payroll affected" folders on her computer. The payroll clerk will also print off a report which the Clerk Treasurer will sign to ensure that the employees listed and the amounts listed are true and accurate.
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3. Preparing Financial Statements- The Clerk Treasurer will review the procedure and attempt to verify and sign all reports which could affect the financial statements after review of such reports.

