

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

ANNUAL FINANCIAL REPORT

2006

CITY OF LAFAYETTE

TIPPECANOE COUNTY, INDIANA



FILED

10/17/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Stephen J. Bultinck J. Michael Jones	01-01-06 to 05-15-06 05-15-06 to 12-31-07
Mayor	Tony Roswarski	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Cindy Murray	01-01-06 to 12-31-07
President of the Common Council	Perry Brown Melissa Weast-Williamson	01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lafayette (City), as of and for the year ended December 31, 2006, which collectively comprise the City's primary government basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Schedules of Funding Progress and Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management Discussion and Analysis or Budgetary Comparison Schedules that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2007, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

September 12, 2007



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lafayette (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 12, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are 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.

This report is intended solely for the information and use of the City's management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

September 12, 2007

CITY OF LAFAYETTE
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Cash and cash equivalents	\$ 18,906,228	\$ 6,843,357	\$ 25,749,585
Cash with fiscal agent	6,584,178	24,218	6,608,396
Receivables (net of allowances for uncollectibles):			
Interest	-	460	460
Taxes	686,141	-	686,141
Accounts	126,789	2,432,411	2,559,200
Other receivables	-	906,055	906,055
Intergovernmental	2,187,960	-	2,187,960
Rent	-	15,000	15,000
Loans	103,602	-	103,602
Internal balances	1,022,711	-	1,022,711
Inventories	163,385	945,929	1,109,314
Prepaid expense	563,967	185,280	749,247
Net pension assets	311,072	191,144	502,216
Deferred debits	1,408,153	2,577,300	3,985,453
Restricted assets:			
Cash and cash equivalents	-	35,730,402	35,730,402
Capital assets:			
Land, improvements and construction in progress	39,398,257	42,574,692	81,972,949
Other capital assets, net of depreciation	<u>147,724,377</u>	<u>129,755,607</u>	<u>277,479,984</u>
 Total assets	 <u>219,186,820</u>	 <u>222,181,855</u>	 <u>441,368,675</u>
 <u>Liabilities</u>			
Accounts payable	2,789,720	2,305,057	5,094,777
Accrued payroll and withholdings payable	412,511	93,472	505,983
Intergovernmental payable	396,153	-	396,153
Accrued interest payable	1,550,610	-	1,550,610
Deferred revenue	13,942	-	13,942
Other payables	-	3,877	3,877
Performance deposits payable	263,923	-	263,923
Internal balances	232,089	790,671	1,022,760
Payable from restricted assets:			
Customer deposits	-	105,581	105,581
Accrued bond interest	-	1,078,280	1,078,280
Noncurrent liabilities:			
Due within one year:			
Compensated absences	9,223	-	9,223
General obligation bonds payable	945,000	-	945,000
Revenue bonds payable	3,225,000	2,051,000	5,276,000
Capital lease obligations	289,106	21,019	310,125
Notes and loans payable	286,358	2,657,219	2,943,577
Due in more than one year:			
General obligation bonds payable	9,245,000	-	9,245,000
Revenue bonds payable (net of discounts or premiums)	61,977,880	60,740,178	122,718,058
Capital lease obligations	256,990	15,673	272,663
Notes and loans payable	830,789	59,615,203	60,445,992
Net pension obligation	<u>25,159,558</u>	<u>-</u>	<u>25,159,558</u>
 Total liabilities	 <u>107,883,852</u>	 <u>129,477,230</u>	 <u>237,361,082</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	110,957,258	46,016,642	156,973,900
Restricted for:			
General government	1,964,057	-	1,964,057
Public safety	(24,864,939)	-	(24,864,939)
Highways and streets	(33,130,575)	-	(33,130,575)
Economic development	57,519,306	-	57,519,306
Culture and recreation	738,023	-	738,023
Debt service	-	1,751,858	1,751,858
Unrestricted	<u>(1,880,162)</u>	<u>44,936,125</u>	<u>43,055,963</u>
 Total net assets	 <u>\$ 111,302,968</u>	 <u>\$ 92,704,625</u>	 <u>\$ 204,007,593</u>

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

CITY OF LAFAYETTE
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 4,731,894	\$ 2,048,390	\$ 25,000	\$ -	\$ (2,658,504)	\$ -	\$ (2,658,504)
Public safety	26,834,096	109,319	207,563	-	(26,517,214)	-	(26,517,214)
Highways and streets	8,643,005	8,305,176	29,942	892,333	584,446	-	584,446
Sanitation	2,676,733	-	-	-	(2,676,733)	-	(2,676,733)
Economic development	1,630,681	31,322	1,452,245	-	(147,114)	-	(147,114)
Culture and recreation	4,962,343	1,536,087	20	256,958	(3,169,278)	-	(3,169,278)
Interest on long-term debt	5,689,715	-	-	-	(5,689,715)	-	(5,689,715)
Total governmental activities	<u>55,168,467</u>	<u>12,030,294</u>	<u>1,714,770</u>	<u>1,149,291</u>	<u>(40,274,112)</u>	<u>-</u>	<u>(40,274,112)</u>
Business-type activities:							
Water	8,499,601	8,016,030	-	-	-	(483,571)	(483,571)
Wastewater	16,264,842	18,267,052	-	-	-	2,002,210	2,002,210
Parking lot A	213,722	213,175	-	-	-	(547)	(547)
Pittman block	25,352	30,000	-	-	-	4,648	4,648
Storm Water	66,370	34,265	-	-	-	(32,105)	(32,105)
Total business-type activities	<u>25,069,887</u>	<u>26,560,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,490,635</u>	<u>1,490,635</u>
Total primary government	<u>\$ 80,238,354</u>	<u>\$ 38,590,816</u>	<u>\$ 1,714,770</u>	<u>\$ 1,149,291</u>	<u>(40,274,112)</u>	<u>1,490,635</u>	<u>(38,783,477)</u>
General revenues:							
Property taxes					26,864,417	-	26,864,417
Intergovernmental revenues					6,581,157	-	6,581,157
Gain (loss) on disposal of assets					(96,242)	-	(96,242)
Other revenues					2,713,832	-	2,713,832
Unrestricted investment earnings					3,463,763	1,233,827	4,697,590
Transfers					(34,154)	34,154	-
Total general revenues and transfers					<u>39,492,773</u>	<u>1,267,981</u>	<u>40,760,754</u>
Change in net assets					<u>(781,339)</u>	<u>2,758,616</u>	<u>1,977,277</u>
Net assets - beginning					114,505,868	94,997,762	209,503,630
Prior period adjustments					(2,421,561)	(5,051,753)	(7,473,314)
Adjusted beginning					<u>112,084,307</u>	<u>89,946,009</u>	<u>202,030,316</u>
Net assets - ending					<u>\$ 111,302,968</u>	<u>\$ 92,704,625</u>	<u>\$ 204,007,593</u>

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

CITY OF LAFAYETTE
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006

<u>Assets</u>	<u>General</u>	<u>Streets</u>	<u>Parks</u>	<u>Redevelopment Authority</u>	<u>Thoroughfare</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ (2,228,205)	\$ 2,290,297	\$ 930,832	\$ -	\$ (613,202)	\$ 17,742,939	\$ 18,122,661
Cash with fiscal agent	-	-	-	6,584,178	-	-	6,584,178
Receivables (net of allowances for uncollectibles):							
Interest	-	-	-	251,500	-	-	251,500
Taxes	368,445	45,064	69,690	-	-	202,942	686,141
Accounts	9,326	31,377	-	-	-	86,086	126,789
Intergovernmental	957,928	344,860	32,151	-	-	853,021	2,187,960
Loans	-	-	-	-	-	103,602	103,602
Interfund receivable:							
Interfund services provided and used	172,400	12,464	2,274	-	587,638	247,935	1,022,711
Total assets	\$ (720,106)	\$ 2,724,062	\$ 1,034,947	\$ 6,835,678	\$ (25,564)	\$ 19,236,525	\$ 29,085,542
 <u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 835,915	\$ 135,837	\$ 117,435	\$ 164,918	\$ 61,045	\$ 1,469,216	\$ 2,784,366
Accrued payroll and withholdings payable	329,784	46,013	29,135	-	-	7,579	412,511
Interfund payable:							
Interfund services provided and used	-	-	-	-	-	231,626	231,626
Intergovernmental payable	-	-	-	-	-	396,153	396,153
Accrued interest payable	-	-	195,466	1,151,668	123,979	330,997	1,802,110
Deferred revenue	-	-	13,942	-	-	-	13,942
Deferred revenue - unavailable	1,298,330	65,854	101,751	-	-	917,200	2,383,135
Performance deposits payable	249,393	-	14,530	-	-	-	263,923
Total liabilities	2,713,422	247,704	472,259	1,316,586	185,024	3,352,771	8,287,766
 Fund balances:							
Unreserved, reported in:							
General fund	(3,433,528)	-	-	-	-	-	(3,433,528)
Special revenue funds	-	2,476,358	562,688	-	-	1,608,319	4,647,365
Capital projects funds	-	-	-	5,519,092	(210,588)	13,466,109	18,774,613
Debt service funds	-	-	-	-	-	809,326	809,326
Total fund balances	(3,433,528)	2,476,358	562,688	5,519,092	(210,588)	15,883,754	20,797,776
Total liabilities and fund balances	\$ (720,106)	\$ 2,724,062	\$ 1,034,947	\$ 6,835,678	\$ (25,564)	\$ 19,236,525	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	187,122,634
Current assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	727,352
Net pension assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	311,072
City and state collections that are not available until the next calendar year are recognized as revenues in government-wide funds but are deferred in the fund balances.	2,383,135
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,408,153
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	777,750
Current liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.	(5,585,476)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(71,479,870)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(25,159,558)

Net assets of governmental activities \$ 111,302,968

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

CITY OF LAFAYETTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

	General	Streets	Parks	Redevelopment Authority	Thoroughfare	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 14,038,846	\$ 1,716,963	\$ 2,655,282	\$ -	\$ -	\$ 8,598,892	\$ 27,009,983
Licenses and permits	183,268	-	-	-	-	9,945	193,213
Intergovernmental	6,643,537	3,044,949	253,516	-	-	7,288,878	17,230,880
Charges for services	40,895	-	1,298,503	-	-	106,042	1,445,440
Fines and forfeits	111,670	-	-	-	-	20,313	131,983
Other	3,546,307	76,391	369,424	2,494,479	463,825	379,994	7,330,420
Total revenues	24,564,523	4,838,303	4,576,725	2,494,479	463,825	16,404,064	53,341,919
Expenditures:							
Current:							
General government	3,909,291	-	-	-	-	145,097	4,054,388
Public safety	21,439,047	-	-	-	-	344,995	21,784,042
Highways and streets	551,173	4,411,611	-	-	-	1,249,955	6,212,739
Sanitation	2,437,772	-	-	-	-	-	2,437,772
Economic development	-	-	-	-	-	1,501,902	1,501,902
Culture and recreation	-	-	5,758,087	-	-	23,892	5,781,979
Capital outlay:							
Highways and streets	-	-	-	9,217,507	7,805,504	6,659,555	23,682,566
Total expenditures	28,337,283	4,411,611	5,758,087	9,217,507	7,805,504	9,925,396	65,455,388
Excess (deficiency) of revenues over expenditures	(3,772,760)	426,692	(1,181,362)	(6,723,028)	(7,341,679)	6,478,668	(12,113,469)
Other financing sources (uses):							
Transfers in	4,778,958	223,480	241,146	148,218	4,386,899	527,973	10,306,674
Transfers from enterprise funds	-	-	-	-	-	823,288	823,288
Transfers out	(290,000)	-	(213,306)	(9,791)	(10,895)	(9,782,682)	(10,306,674)
Bond issue and loan proceeds	290,000	-	-	2,445,000	2,755,087	-	5,490,087
Payments received (made) on internal leases	-	-	-	3,130,000	-	(3,130,000)	-
Capital leases	41,835	-	-	-	-	-	41,835
Total other financing sources and uses	4,820,793	223,480	27,840	5,713,427	7,131,091	(11,561,421)	6,355,210
Net change in fund balances	1,048,033	650,172	(1,153,522)	(1,009,601)	(210,588)	(5,082,753)	(5,758,259)
Fund balances - beginning	(4,481,561)	1,826,186	1,716,210	6,528,693	-	20,662,328	26,251,856
Prior period adjustments	-	-	-	-	-	304,179	304,179
Beginning fund balances - adjusted	(4,481,561)	1,826,186	1,716,210	6,528,693	-	20,966,507	26,556,035
Fund balances - ending	\$ (3,433,528)	\$ 2,476,358	\$ 562,688	\$ 5,519,092	\$ (210,588)	\$ 15,883,754	\$ 20,797,776

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

CITY OF LAFAYETTE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ (5,758,259)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	10,230,998
Gains or losses on disposal of assets that do not provide current financial resources are not reported as revenues in the funds.	(96,242)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(126,143)
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(989,544)
Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.	(4,083,924)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	589,156
Transfers of noncurrent items between governmental and enterprise or fiduciary funds provide financial resources to net assets, but do not have any effect on governmental funds. This amount is the net effect of those transfers.	(857,442)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	<u>310,061</u>
Change in net assets of governmental activities (Statement of Activities)	<u>\$ (781,339)</u>

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

CITY OF LAFAYETTE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006

Assets	Business-Type Activities - Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Totals	
Current assets:					
Cash and cash equivalents	\$ 644,192	\$ 6,474,106	\$ (274,941)	\$ 6,843,357	\$ 783,567
Cash with fiscal agent	-	-	24,218	24,218	-
Interest receivable	-	-	460	460	-
Accounts receivable (net of allowance)	1,207,759	1,224,652	-	2,432,411	-
Other receivables	59	905,996	-	906,055	-
Rent receivable	-	-	15,000	15,000	-
Inventories	267,086	678,843	-	945,929	-
Prepaid items	92,640	92,640	-	185,280	-
Total current assets	2,211,736	9,376,237	(235,263)	11,352,710	783,567
Noncurrent assets:					
Restricted cash, cash equivalents and investments:					
Customer deposits	102,720	-	-	102,720	-
Revenue bond covenant accounts	1,499,581	33,821,334	306,767	35,627,682	-
Total restricted assets	1,602,301	33,821,334	306,767	35,730,402	-
Deferred charges	289,413	2,237,887	50,000	2,577,300	-
Capital assets:					
Land, improvements to land and construction in progress	2,036,364	39,859,347	678,981	42,574,692	-
Other capital assets (net of accumulated depreciation)	27,978,281	99,058,143	2,719,183	129,755,607	-
Total capital assets	30,014,645	138,917,490	3,398,164	172,330,299	-
Pension benefit assets	85,512	105,632	-	191,144	-
Total noncurrent assets	31,991,871	175,082,343	3,754,931	210,829,145	-
Total assets	34,203,607	184,458,580	3,519,668	222,181,855	783,567
Liabilities					
Current liabilities:					
Accounts payable	414,738	1,880,912	9,407	2,305,057	5,354
Accrued payroll and withholdings payable	39,936	53,536	-	93,472	-
Interfund payables:					
Interfund services provided and used	26,764	669,765	94,142	790,671	463
Other payables	3,877	-	-	3,877	-
Current liabilities payable from restricted assets:					
Customer deposits	105,581	-	-	105,581	-
Revenue bonds payable	640,000	1,205,000	206,000	2,051,000	-
Notes and loans payable	47,219	2,610,000	-	2,657,219	-
Capital leases payable	14,619	6,400	-	21,019	-
Accrued interest payable	86,866	933,172	58,242	1,078,280	-
Total current liabilities	1,379,600	7,358,785	367,791	9,106,176	5,817
Noncurrent liabilities:					
Revenue bonds payable (net of unamortized discounts or premiums)	3,368,722	55,462,456	1,909,000	60,740,178	-
Notes and loans payable	45,870	59,569,333	-	59,615,203	-
Capital leases payable	15,673	-	-	15,673	-
Total noncurrent liabilities	3,430,265	115,031,789	1,909,000	120,371,054	-
Total liabilities	4,809,865	122,390,574	2,276,791	129,477,230	5,817
Net Assets					
Invested in capital assets, net of related debt	26,026,264	18,617,837	1,372,541	46,016,642	-
Restricted for debt service	401,868	1,072,984	277,006	1,751,858	-
Unrestricted	2,965,610	42,377,185	(406,670)	44,936,125	777,750
Total net assets	\$ 29,393,742	\$ 62,068,006	\$ 1,242,877	\$ 92,704,625	\$ 777,750

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

CITY OF LAFAYETTE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2006

	Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Totals	
Operating revenues:					
Unmetered water revenue	\$ 30,307	\$ -	\$ -	\$ 30,307	\$ -
Metered water revenue:					
Residential	3,248,282	-	-	3,248,282	-
Commercial	1,908,285	-	-	1,908,285	-
Industrial	441,735	-	-	441,735	-
Fire protection revenue	1,613,698	-	-	1,613,698	-
Recoveries to operations	197,698	1,175,010	-	1,372,708	-
Other water revenue	575,967	-	-	575,967	-
Measured revenue:					
Residential	-	5,222,705	-	5,222,705	-
Commercial	-	3,474,665	-	3,474,665	-
Industrial	-	70,416	-	70,416	-
Other	-	8,070,992	277,440	8,348,432	1,301,748
Total operating revenues	<u>8,015,972</u>	<u>18,013,788</u>	<u>277,440</u>	<u>26,307,200</u>	<u>1,301,748</u>
Operating expenses:					
Source of supply and expense - operations and maintenance	1,065,167	-	-	1,065,167	-
Water treatment expense - operations and maintenance	222,680	-	-	222,680	-
Transmission and distribution	1,347,898	-	-	1,347,898	-
Collection system - operations and maintenance	-	783,810	-	783,810	-
Treatment and disposal expense - operations and maintenance	-	3,104,070	-	3,104,070	-
Customer accounts	559,163	421,481	-	980,644	-
Administration and general	2,839,462	3,582,777	-	6,422,239	991,687
Materials and supplies	-	-	17,734	17,734	-
Contractual services	-	-	66,370	66,370	-
Bad debt expense	1,331,080	35,559	-	1,366,639	-
Depreciation and amortization	928,275	4,192,849	66,865	5,187,989	-
Miscellaneous expenses	681	-	-	681	-
Total operating expenses	<u>8,294,406</u>	<u>12,120,546</u>	<u>150,969</u>	<u>20,565,921</u>	<u>991,687</u>
Operating income (loss)	<u>(278,434)</u>	<u>5,893,242</u>	<u>126,471</u>	<u>5,741,279</u>	<u>310,061</u>
Nonoperating revenues (expenses):					
Interest and investment revenue	15,151	1,217,459	1,217	1,233,827	-
Amortized bond issue expense	(55,109)	(35,737)	(15,000)	(105,846)	-
Miscellaneous revenue	58	3,264	-	3,322	-
Interest expense	(150,086)	(4,108,559)	(139,475)	(4,398,120)	-
Total nonoperating revenue (expenses)	<u>(189,986)</u>	<u>(2,923,573)</u>	<u>(153,258)</u>	<u>(3,266,817)</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>(468,420)</u>	<u>2,969,669</u>	<u>(26,787)</u>	<u>2,474,462</u>	<u>310,061</u>
Capital contributions	-	250,000	-	250,000	-
Transfers in	-	863,430	-	863,430	-
Transfers out	(5,989)	(823,287)	-	(829,276)	-
Change in net assets	<u>(474,409)</u>	<u>3,259,812</u>	<u>(26,787)</u>	<u>2,758,616</u>	<u>310,061</u>
Total net assets - beginning	29,776,460	63,999,316	1,221,986	94,997,762	467,689
Prior period adjustment	91,691	(5,191,122)	47,678	(5,051,753)	-
Beginning net assets - adjusted	<u>29,868,151</u>	<u>58,808,194</u>	<u>1,269,664</u>	<u>89,946,009</u>	<u>467,689</u>
Total net assets - ending	<u>\$ 29,393,742</u>	<u>\$ 62,068,006</u>	<u>\$ 1,242,877</u>	<u>\$ 92,704,625</u>	<u>\$ 777,750</u>

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

CITY OF LAFAYETTE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2006

	Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Totals	
Cash flows from operating activities:					
Receipts from customers and users	\$ 8,553,006	\$ 18,286,824	\$ 292,440	\$ 27,132,270	\$ 1,301,748
Receipts from interfund services provided	-	520,637	-	520,637	-
Payments to suppliers	(5,019,408)	(3,535,734)	(61,564)	(8,616,706)	-
Payments to employees	(2,295,615)	(3,017,389)	-	(5,313,004)	-
Payments for interfund services used	(80,028)	-	(19,371)	(99,399)	(1,034,655)
Net cash provided by operating activities	<u>1,157,955</u>	<u>12,254,338</u>	<u>211,505</u>	<u>13,623,798</u>	<u>267,093</u>
Cash flows from noncapital financing activities:					
Nonoperating expenses	(69,903)	(1,070,527)	-	(1,140,430)	-
Net cash used by noncapital financing activities	<u>(69,903)</u>	<u>(1,070,527)</u>	<u>-</u>	<u>(1,140,430)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Proceeds from capital debt	-	52,199,050	-	52,199,050	-
Purchase of capital assets	(468,265)	(11,269,842)	-	(11,738,107)	-
Principal paid on capital debt	(763,106)	(28,744,037)	(195,000)	(29,702,143)	-
Interest paid on capital debt	(156,286)	(3,607,814)	(130,860)	(3,894,960)	-
Net cash provided (used) by capital and related financing activities	<u>(1,387,657)</u>	<u>8,577,357</u>	<u>(325,860)</u>	<u>6,863,840</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	15,151	1,217,459	2,597	1,235,207	-
Net increase in cash and cash equivalents	(284,454)	20,978,627	(111,758)	20,582,415	267,093
Cash and cash equivalents, January 1 (Including \$102,720 and \$14,385,434 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)					
	<u>2,530,947</u>	<u>19,316,813</u>	<u>167,802</u>	<u>22,015,562</u>	<u>516,474</u>
Cash and cash equivalents, December 31 (Including \$102,720 and \$35,627,682 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)					
	<u>\$ 2,246,493</u>	<u>\$ 40,295,440</u>	<u>\$ 56,044</u>	<u>\$ 42,597,977</u>	<u>\$ 783,567</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (278,434)	\$ 5,893,242	\$ 126,471	\$ 5,741,279	\$ 310,061
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	928,275	4,192,849	66,865	5,187,989	-
(Increase) decrease in assets:					
Accounts receivable	534,237	(112,791)	15,000	436,446	-
Other receivables	(59)	385,827	-	385,768	-
Inventories	5,940	56,077	-	62,017	-
Prepaid items	(12,621)	67,435	-	54,814	-
Pension benefit assets	(109)	(134)	-	(243)	-
Increase (decrease) in liabilities:					
Customer deposits	2,856	-	-	2,856	-
Accounts payable	138,138	1,291,824	3,169	1,433,131	(42,968)
Accrued payroll and withholdings payable	(30,413)	(40,628)	-	(71,041)	-
Contracts payable	(22,720)	-	-	(22,720)	-
Other payables	(12)	-	-	(12)	-
Interfund services provided and used	(86,017)	520,637	-	434,620	-
Taxes payable	(21,106)	-	-	(21,106)	-
Total adjustments	<u>1,436,389</u>	<u>6,361,096</u>	<u>85,034</u>	<u>7,882,519</u>	<u>(42,968)</u>
Net cash provided by operating activities	<u>\$ 1,157,955</u>	<u>\$ 12,254,338</u>	<u>\$ 211,505</u>	<u>\$ 13,623,798</u>	<u>\$ 267,093</u>

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

CITY OF LAFAYETTE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 3,177,090	\$ 533,661
Receivables:		
Taxes	97,410	-
Intergovernmental	<u>44,941</u>	<u>-</u>
Total receivables	<u>142,351</u>	<u>-</u>
Total assets	<u>3,319,441</u>	<u>\$ 533,661</u>
 <u>Liabilities</u>		
Payroll withholdings payable	-	\$ 533,652
Interfund payable	<u>-</u>	<u>9</u>
Total liabilities	<u>-</u>	<u>\$ 533,661</u>
 <u>Net Assets</u>		
Held in trust for:		
Employees' pension benefits and other purposes	<u>3,319,441</u>	
Total net assets	<u>\$ 3,319,441</u>	

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

CITY OF LAFAYETTE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended December 31, 2006

<u>Additions</u>	<u>Pension Trust Funds</u>
Contributions:	
Employer	\$ 6,106,327
Plan members	45,989
Private donations	<u>2,863</u>
Total contributions	<u>6,155,179</u>
Total additions	<u>6,155,179</u>
 <u>Deductions</u>	
Benefits	3,724,497
Administrative expense	<u>12,039</u>
Total deductions	<u>3,736,536</u>
Changes in net assets	2,418,643
Net assets - beginning	<u>900,798</u>
Net assets - ending	<u>\$ 3,319,441</u>

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Lafayette (primary government) was established under the laws of the State of Indiana. The primary government operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health, welfare and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, sewer, and urban redevelopment and housing.

The accompanying financial statements present the activities of the primary government and its significant component units. The component units discussed below are included in the primary government's reporting entity because of the significance of their operational or financial relationships with the primary government. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended Component Units

The Lafayette Redevelopment Authority is a significant blended component unit of the primary government. The primary government appoints a voting majority of the Redevelopment Authority's board and a financial benefit/burden relationship exists between the primary government and the Redevelopment Authority. Although it is legally separate from the primary government, the Redevelopment Authority is reported as if it were a part of the primary government because it provides services entirely or almost entirely to the primary government.

Joint Venture

The primary government is a participant with Tippecanoe County, the City of West Lafayette, and the Town of Battle Ground in a joint venture to operate the Lafayette Housing Consortium which was created to undertake eligible housing assistance activities under the HOME Investment Partnership Program (HOME), as set forth in the National Affordable Housing Act (NAHA). The City agrees to cooperate, to undertake, or to assist in undertaking housing assistance activities for HOME. Complete financial statements for the Lafayette Housing Consortium can be obtained from the City of Lafayette, 20 North Sixth Street, Lafayette, IN.

Related Organizations

The primary government's officials are also responsible for appointing members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints board members of the Lafayette Housing Authority, Tippecanoe County Convention and Visitors Bureau, Tippecanoe County Child Care Commission, Lafayette Police Civil Service Commission, Area Plan Commission, Board of Zoning Appeals of Tippecanoe County/Lafayette Division, Lafayette Urban Enterprise Association, Lafayette Historic District Review Board, Greater Lafayette Public Transportation Corporation, Tippecanoe County Local Environmental Response Financing Board and the Lafayette Tree Advisory Committee.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Government-Wide and Fund Financial Statements

Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the primary government receives cash.

The primary government reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The streets fund accounts for the resources of the motor vehicle highway and local road and street funds which are utilized for the repair and maintenance of the City's fleet, streets and related infrastructure.

The parks fund accounts for the resources related to the operations, maintenance, repairs and upgrading of the City's recreational areas. This would include the City parks, zoo and golf course.

The redevelopment authority fund accounts for resources utilized to create positive economic development within the City. This is accomplished through improvements in housing, infrastructure and grants to subrecipients.

The thoroughfare fund accounts for resources related to major capital improvements to streets, sewer lines and other infrastructure improvements.

The primary government reports the following major proprietary funds:

The water utility fund accounts for the operation of the primary government's water distribution system.

The wastewater utility fund accounts for the operation of the primary government's wastewater treatment plant, pumping stations and collection systems.

Additionally, the primary government reports the following fund types:

The internal service fund accounts for self-insurance provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds which accumulate resources for pension benefit payments.

Agency funds account for assets held by the primary government as an agent for state and federal agencies for payroll withholdings.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the city and utilities for services. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The primary government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the primary government to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Interfund Transactions and Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables" (i.e., the current and noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the 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% of the true tax value (determined in accordance with rules and regulations adopted by the Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

distribution were distributed to the primary government prior to December 31 of the year collected. Delinquent property taxes outstanding at year end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable with an offset to deferred revenue since the amounts are not considered available.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by bond covenants.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 5,000	Straight-line	10 to 40 yrs
Equipment	5,000	Straight-line	5 to 10 yrs
Roads – collectors and residential	5,000	Straight-line	50 yrs
Water collection systems	5,000	Straight-line	5 to 40 yrs
Wastewater distribution and collection systems	5,000	Straight-line	5 to 40 yrs

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the primary government in its business-type activities during the current year was \$635,281. Of the amount, \$90,020 was included as part of the cost of capital assets under construction in connection with an overflow tunnel.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Compensated Absences

- a. Sick Leave – primary government employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 36 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – primary government employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 5 days for carryover to the following year. Accumulated vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave – primary government employees earn personal leave at the rate of 2 days per year and 1 day each year for their birthday. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred.

No liability is reported for sick and personal leave.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis which is not consistent with accounting principles generally accepted in the United States. All annual appropriations lapse at fiscal year end.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

On or before August 31, the City Controller submits to the Common Council a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the Common Council to obtain taxpayer comments. In September of each year, the Common Council through the passage of an ordinance approves the budget for the next year. Copies of the budget ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the City Controller receives approval of the Indiana Department of Local Government Finance.

The primary government's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2006, expenditures exceeded budgeted appropriations in the following funds, by the amounts below:

Fund	Amount
Local Road and Street	\$ 228,080
Cumulative Capital Development	334,875
Redevelopment Authority	4,472
 Total	 \$ 567,427

These expenditures were funded by expenditures of existing cash reserves.

C. Deficit Fund Equity

At December 31, 2006, the following funds reported deficits in fund equity, which are violations of State statute:

	Deficit
Governmental funds:	
General	\$ 3,433,528
Economic Revitalization	23,892
DUI Task Force	21,670
Thoroughfare	210,588
Public Improvement	12,020

Fund equity deficits arose primarily from expenditures or expenses exceeding revenues due to the underestimate of current requirements; these deficits will be repaid from future revenues.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the City had no investments.

Investment Policies

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

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

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments that are uninsured and (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. At December 31, 2006, the City held no investments of this type.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Adjustments to Balance</u>	<u>Adjusted Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:						
Capital assets, not being depreciated:						
Land	\$ 21,369,727	\$ 15,679	\$ 21,385,406	\$ 254,822	\$ 4,365,447	\$ 17,274,781
Construction in progress	<u>12,774,735</u>	<u>-</u>	<u>12,774,735</u>	<u>14,664,591</u>	<u>5,315,850</u>	<u>22,123,476</u>
Total capital assets, not being depreciated	<u>34,144,462</u>	<u>15,679</u>	<u>34,160,141</u>	<u>14,919,413</u>	<u>9,681,297</u>	<u>39,398,257</u>
Capital assets, being depreciated:						
Buildings	28,819,427	(1,042,890)	27,776,537	-	60,000	27,716,537
Improvements other than buildings	5,598,449	(30,168)	5,568,281	1,373,545	13,050	6,928,776
Machinery and equipment	12,566,248	(7,919,586)	4,646,662	1,437,688	1,041,403	5,042,947
Vehicles	6,726,175	4,494,429	11,220,604	955,938	499,374	11,677,168
Infrastructure	<u>150,323,196</u>	<u>1,725,887</u>	<u>152,049,083</u>	<u>10,898,415</u>	<u>6,053,716</u>	<u>156,893,782</u>
Totals	<u>204,033,495</u>	<u>(2,772,328)</u>	<u>201,261,167</u>	<u>14,665,586</u>	<u>7,667,543</u>	<u>208,259,210</u>

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Adjustments to Balance</u>	<u>Adjusted Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities (continued):						
Capital assets, being depreciated (continued):						
Less accumulated depreciation for:						
Buildings	1,381,786	(245,166)	1,136,620	124,616	7,867	1,253,369
Improvements other than buildings	6,878,779	(4,227,371)	2,651,408	649,670	72,453	3,228,625
Machinery and equipment	5,902,875	1,375,807	7,278,682	1,323,240	263,247	8,338,675
Vehicles	938,538	433,106	1,371,644	290,323	9,817	1,652,150
Infrastructure	<u>42,628,495</u>	<u>908,666</u>	<u>43,537,161</u>	<u>2,569,675</u>	<u>44,822</u>	<u>46,062,014</u>
Totals	<u>57,730,473</u>	<u>(1,754,958)</u>	<u>55,975,515</u>	<u>4,957,524</u>	<u>398,206</u>	<u>60,534,833</u>
Total capital assets, being depreciated, net	<u>146,303,022</u>	<u>(1,017,370)</u>	<u>145,285,652</u>	<u>9,708,062</u>	<u>7,269,337</u>	<u>147,724,377</u>
Total governmental activities capital assets, net	<u>\$ 180,447,484</u>	<u>\$ (1,001,691)</u>	<u>\$ 179,445,793</u>	<u>\$ 24,627,475</u>	<u>\$ 16,950,634</u>	<u>\$ 187,122,634</u>
Business-type activities:						
Capital assets, not being depreciated:						
Land	\$ 658,813	\$ 52,098	\$ 710,911	\$ -	\$ -	\$ 710,911
Construction in progress	<u>32,251,412</u>	<u>-</u>	<u>32,251,412</u>	<u>11,056,169</u>	<u>1,443,800</u>	<u>41,863,781</u>
Total capital assets, not being depreciated	<u>32,910,225</u>	<u>52,098</u>	<u>32,962,323</u>	<u>11,056,169</u>	<u>1,443,800</u>	<u>42,574,692</u>
Capital assets, being depreciated:						
Buildings	25,899,142	(8,904,134)	16,995,008	-	-	16,995,008
Improvements other than buildings	33,924	55,302	89,226	-	-	89,226
Machinery and equipment	103,651,570	(33,193,257)	70,458,313	534,055	356,298	70,636,070
Vehicles	1,864,146	229,295	2,093,441	174,169	87,084	2,180,526
Infrastructure	<u>24,196,406</u>	<u>35,053,094</u>	<u>59,249,500</u>	<u>2,937,598</u>	<u>141,032</u>	<u>62,046,066</u>
Totals	<u>155,645,188</u>	<u>(6,759,700)</u>	<u>148,885,488</u>	<u>3,645,822</u>	<u>584,414</u>	<u>151,946,896</u>
Less accumulated depreciation for:						
Buildings	3,831,972	(2,549,453)	1,282,519	365,974	-	1,648,493
Improvements other than buildings	28,125	3,631	31,756	5,249	-	37,005
Machinery and equipment	15,076,634	(9,432,674)	5,643,960	3,492,246	53,785	9,082,421
Vehicles	856,194	377,809	1,234,003	244,374	-	1,478,377
Infrastructure	<u>129,649</u>	<u>8,715,876</u>	<u>8,845,525</u>	<u>1,099,468</u>	<u>-</u>	<u>9,944,993</u>
Totals	<u>19,922,574</u>	<u>(2,884,811)</u>	<u>17,037,763</u>	<u>5,207,311</u>	<u>53,785</u>	<u>22,191,289</u>
Total capital assets, being depreciated, net	<u>135,722,614</u>	<u>(3,874,889)</u>	<u>131,847,725</u>	<u>(1,561,489)</u>	<u>530,629</u>	<u>129,755,607</u>
Total business-type activities capital assets, net	<u>\$ 168,632,839</u>	<u>\$ (3,822,791)</u>	<u>\$ 164,810,048</u>	<u>\$ 9,494,680</u>	<u>\$ 1,974,429</u>	<u>\$ 172,330,299</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental activities:	
General government	\$ 305,772
Public safety	978,457
Public works, including depreciation of general infrastructure assets	2,257,184
Sanitation	362,532
Culture and recreation	<u>790,490</u>
Total depreciation expense - governmental activities	<u>\$ 4,694,435</u>
Business-type activities:	
Water	\$ 928,275
Wastewater	4,192,849
Other	<u>66,865</u>
Total depreciation expense - business-type activities	<u>\$ 5,187,989</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Governmental activities:				
Kossuth and South 18 intersection	\$ 118,735	\$ 118,735	\$ -	-
Creasy Lane/Fortune Dr.	180,112	168,022	12,090	-
Lafayette State/Earl traffic signal	104,115	104,115	-	-
22nd and Hiatt Dr. signal replacement	78,201	61,747	16,454	-
CR 350S and Osborne Drive	432,742	31,039	401,703	-
Creasy Lane and SR 26 intersection impr	2,864,400	2,676,477	187,923	-
Water and sewer ext. LUR	4,080,572	12,020	4,068,552	-
Brady Lane Road and sewer	8,528,512	6,689,252	1,839,260	-
Twyckenham Blvd ext. Linear Park	358,818	21,850	336,968	-
Greenbush Street reconstruction	6,603,176	4,872,983	1,730,193	-
Park East Blvd - Road project	75	75	-	-
Redevelopment Commission	26,093	26,093	-	-
Home Depot Economic Development	285,670	285,670	-	-
Cat Park parking lot and concession	924,900	446,915	477,985	-
9th and Duncun construction (2001A bond)	13,164	13,164	-	-
Fire Protection Facility (2001B bond)	21,168	21,168	-	-
Twyckenham project LRA 2002 bond	379,060	379,060	-	-
Creasy/Treese TIF East	2,929,054	2,929,054	-	-
Caterpillar Park	100	100	-	-
Farabee Dr. S. Kossuth St. reconstruction	269,507	269,507	-	-
Fire Stations	31,320	31,320	-	-
North 9th Street	27,505	27,505	-	-
Twyckenham TIF	5,345	5,345	-	-

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Governmental activities (continued):				
Zoo master plan	6,500,000	2,227,257	4,272,743	-
Lagoon project	1,000,000	17,417	982,583	-
Central maintenance land purchase	382,695	282,695	100,000	-
TIF McCarty Lane - County project	55,040	55,040	-	-
Central TIF	3,078	3,078	-	-
Depot expenses	6,000	125	5,875	-
Parking lot Erie and Ferry	4,000	3,409	591	-
Streetscape project	315,129	315,129	-	-
Downtown business center	2,257	2,257	-	-
Sidewalk replacement	25,703	25,703	-	-
Wayfinding and signage	75,000	150	74,850	-
Totals	<u>\$ 36,631,246</u>	<u>\$ 22,123,476</u>	<u>\$ 14,507,770</u>	<u>\$ -</u>
Business-type activities:				
Utility service area 21	\$ 10,060,790	\$ 117,177	\$ 9,943,613	\$ -
GIS system	924,850	924,850	-	-
Water storage	2,500,000	250,427	2,249,573	-
Wellhead protection	576,419	576,419	-	-
Onsite chlorine generation equipment	250,864	58,927	191,937	-
Butler Meadows	224,267	40,847	183,420	-
Glick Wellfield generator	1,500,000	278,446	1,221,554	-
Watermain replacement program	181,891	181,891	-	-
New Wellfield investigation	96,699	96,699	-	-
Scada improvements	170,638	170,638	-	-
South water tower	125,131	125,131	-	-
Glick remediation	271,871	271,871	-	-
New Wellfield investigation	107,420	107,420	-	-
Milestone Ind. Subdivision water line	26,040	3,040	23,000	-
New building loan #2	675	675	-	-
Union Street	149,593	35,959	113,634	-
Elliot Ditch	420,191	420,191	-	-
McCarty Lane	3,627,000	3,626,968	32	-
Valley Street	40,245	40,245	-	-
Storm water quality management plan	104,632	104,632	-	-
Ross Road	7,710,974	7,710,974	-	-
SIA	9,131,565	9,131,565	-	-
CSO	472,607	472,607	-	-
Brady Lane	447,298	447,298	-	-
Prairie Oaks phase II	498,726	199,669	299,057	-
Creasy Lane relief sewer - Lauth sewer	60,000	57,398	2,602	-
South/Kossuth Street sewer backups	9,285	9,285	-	-
Brady Lane road and sewer	8,796,149	7,196,753	1,599,396	-

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Business-type activities (continued):				
Union Street sanitary sewer project	156,969	156,969	-	-
Storm water southside drainage	121,291	121,291	-	-
Pearl River	26,987,944	5,791,426	21,196,518	-
Prairie Oaks LS odor control system	60,970	60,970	-	-
Elliott Ditch emergency repair project	2,014,292	2,014,292	-	-
Elliott Ditch phase I	<u>1,610,779</u>	<u>1,060,831</u>	<u>549,948</u>	-
Total business-type activities	<u>\$ 79,438,065</u>	<u>\$ 41,863,781</u>	<u>\$ 37,574,284</u>	<u>\$ -</u>

E. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2006, were as follows:

Transfer From	Transfer To						Totals
	General Fund	Streets Fund	Parks and Recreation Fund	Redevelopment Authority Fund	Thoroughfare Fund	Nonmajor Governmental Fund	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 290,000	\$ 290,000
Parks and Recreation Fund	-	-	213,306	-	-	-	213,306
Redevelopment Authority Fund	-	-	-	-	9,791	-	9,791
Thoroughfare Fund	-	-	-	10,895	-	-	10,895
Nonmajor Governmental Fund	<u>4,778,958</u>	<u>223,480</u>	<u>27,840</u>	<u>137,323</u>	<u>4,377,108</u>	<u>237,973</u>	<u>9,782,682</u>
Totals	<u>\$ 4,778,958</u>	<u>\$ 223,480</u>	<u>\$ 241,146</u>	<u>\$ 148,218</u>	<u>\$ 4,386,899</u>	<u>\$ 527,973</u>	<u>\$ 10,306,674</u>

The primary government typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the Debt Service Fund for current-year debt service requirements.

F. Leases

Capital Leases

The primary government has entered into various capital leases for transportation and various other equipment and a facilities management system upgrade. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2006, are as follows:

	<u>Governmental</u>	<u>Business-type</u>
2007	\$ 307,794	\$ 23,453
2008	213,743	10,260
2009	<u>53,314</u>	<u>5,130</u>
Total minimum lease payments	574,851	38,843
Less amount representing interest	<u>28,755</u>	<u>2,151</u>
Present value of net minimum lease payments	<u>\$ 546,096</u>	<u>\$ 36,692</u>

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Assets acquired through capital leases still in effect are as follows:

	Governmental Activities	Business-Type Activities
Improvements other than buildings	\$ 184,561	\$ 79,097
Machinery and equipment	1,302,417	-
Transportation equipment	24,450	321,872
Totals	\$ 1,511,428	\$ 400,969

G. Long-Term Liabilities

1. General Obligation Bonds

The primary government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the primary government. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Park district bonds of 1998 for aquatic center	4.6% to 4.7%	\$ 4,155,000
Park and recreation bonds of 2001	3.8758% to 5%	3,030,000
Park and recreation bonds of 2003	3% to 4.3%	2,265,000
County option tax infrastructure bonds of 2003	3% to 3.6%	740,000
Total		\$ 10,190,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2007	\$ 705,000	\$ 443,215
2008	735,000	414,750
2009	760,000	384,610
2010	795,000	352,790
2011	825,000	318,768
2012-2016	4,020,000	1,055,795
2017-2021	2,350,000	160,016
Totals	\$ 10,190,000	\$ 3,129,944

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Revenue Bonds

The primary government issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount	Bond Discount (Premium)	Revenue Bonds, Net
District parking facility revenue bonds of 1996	6%	\$ 2,025,000	\$ -	\$ 2,025,000
Economic development revenue bonds of 2001	7%	90,000	-	90,000
Wastewater improvement revenue bonds of 2002	4% to 5.15%	3,930,000	1,153,674	2,776,326
Water refunding revenue bonds of 2003	2% to 3.8%	3,865,000	(143,722)	4,008,722
Sewer works refunding revenue bonds of 2006	3.5% to 4.5%	26,591,000	242,627	26,348,373
Sewer works revenue bonds of 2006	4% to 4.75%	27,570,000	27,243	27,542,757
Totals		<u>\$ 64,071,000</u>	<u>\$ 1,279,822</u>	<u>\$ 62,791,178</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Business-Type Activities	
	Principal	Interest
2007	\$ 2,052,000	\$ 2,988,726
2008	2,112,000	3,207,654
2009	2,214,000	3,135,752
2010	2,316,000	3,066,210
2011	2,440,000	3,008,211
2012-2016	9,941,000	10,965,647
2017-2021	10,946,000	7,990,398
2022-2026	32,050,000	4,415,307
Totals	<u>\$ 64,071,000</u>	<u>\$ 38,777,905</u>

3. Tax Increment Financing (TIF) Bonds

The Lafayette Redevelopment Authority (a blended component unit of the primary government, and acting on behalf of the City of Lafayette) issues tax incremental financing (TIF) bonds. The TIF bonds are secured by tax proceeds attributable to the assessed valuation within the Lafayette Redevelopment District (the Lafayette Redevelopment District boundaries are coterminous with the City) to finance local public improvements and economic development projects.

Tax incremental financing (TIF) bonds are direct obligations and pledge the full faith and credit of the primary government. Tax incremental financing bonds currently outstanding at year end are as follows:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Amounts
1995 Redevelopment Authority lease rental bonds	5.375% to 5.5%	\$ 1,550,000
1996 Redevelopment Authority refunding bonds	5.4% to 5.6%	4,025,000
1997 Redevelopment Authority refunding bonds	3.75% to 5.35%	3,280,000
1998 Redevelopment Authority refunding bonds	4.1% to 4.8%	4,255,000
1999 Redevelopment Authority refunding bonds	4.1% to 4.8%	7,520,000
2001 Redevelopment Authority lease rental bonds - N. 9th St.	4.25% to 4.5%	3,025,000
2001 Redevelopment Authority lease rental bonds - Fire Station	4.375% to 4.5%	4,315,000
2002 Redevelopment Authority lease rental bonds - Twychenham	3.0% to 5.0%	7,695,000
2003 Redevelopment Authority refunding bonds	3.0% to 3.9%	4,455,000
2003 Redevelopment Authority refunding bonds	1.2% to 3.75%	2,070,000
2004 Redevelopment Authority lease rental bonds - Brady Lane	3.25% to 4.1%	5,070,000
2004 Redevelopment Authority refunding bonds	3.0% to 4.1%	9,740,000
2005 Redevelopment Authority bond anticipation notes	4.00%	2,500,000
2004 Renaissance Place Series A bonds	5.50%	2,145,000
2004 Renaissance Place Series B bonds	5.50%	850,000
2006 Redevelopment Authority revenue bonds - Thoroughfare	6.00%	<u>2,755,087</u>
Total		65,250,087
Less: Net of bond discounts and premiums		<u>47,207</u>
TIF Bonds, net		<u>\$ 65,202,880</u>

Annual debt service requirements to maturity for tax incremental financing bonds are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2007	\$ 3,225,000	\$ 2,726,952
2008	5,905,000	2,963,247
2009	3,685,000	2,469,772
2010	3,970,000	2,399,453
2011	4,195,000	2,234,102
2012-2016	24,350,000	8,198,717
2017-2021	15,385,000	2,943,768
2022-2026	4,775,000	542,315
Less: 2006 Redevelopment Authority revenue bonds not drawn	<u>(239,913)</u>	<u>-</u>
Totals	<u>\$ 65,250,087</u>	<u>\$ 24,478,326</u>

4. Loans Payable

The Wastewater Utility has entered into two loans from the State Revolving Loan Fund. Under the terms of the loans, the funds are loaned to the Utility as planned construction costs are accrued to the maximum allowed under the loans. The 2000 loan's established maximum draw is

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

\$59,630,000 and the 2001 loan's established maximum draw is \$12,000,000. At December 31, 2006, the principal balance for the 2000 loan was \$51,950,000 and the 2001 loan was \$10,210,000 less the final drawdown of \$22,920, which had not been processed by the State Revolving Loan Fund at December 31. Annual debt service requirements to maturity for the loans are as follows:

	Business-Type Activities	
	Principal	Interest
2007	\$ 2,610,000	\$ 1,976,363
2008	2,955,000	2,058,613
2009	3,060,000	1,954,312
2010	3,165,000	1,846,338
2011	3,270,000	1,734,600
2012-2016	18,195,000	6,855,362
2017-2021	21,650,000	3,407,600
2022-2025	7,232,080	255,412
Totals	\$ 62,137,080	\$ 20,088,600

5. Notes Payable

The primary government has entered into various notes. Annual debt service requirements to maturity for the notes are as follows:

	Governmental Funds	Business-Type Activities
	2007	\$ 330,652
2008	330,662	73,678
2009	291,664	-
2010	271,579	-
Totals	1,224,557	145,244
Less interest	107,410	9,902
Totals	\$ 1,117,147	\$ 135,342

6. Advance Refunding

In prior years, the primary government defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the primary government's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Amount
Primary government:	
1991 Redevelopment Authority lease rental - \$5,000,000	\$ 2,055,000
1993 Redevelopment Authority refunding issue - \$4,855,000	1,990,000
1994 Redevelopment Authority lease rental - \$9,365,000	6,845,000
1994 Redevelopment Authority lease rental - \$15,000,000	10,870,000
1994 Redevelopment Authority lease rental - \$5,665,000	3,855,000
1995 Redevelopment Authority lease rental - \$8,200,000	6,105,000
1995 Redevelopment Authority lease rental - \$3,360,000	2,930,000
2002 Sewage Works revenue bonds - \$30,000,000	23,935,000

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation	\$ 10,865,000	\$ -	\$ 675,000	\$ 10,190,000	\$ 945,000
Bond anticipation note	55,000	-	55,000	-	-
Redevelopment agency	63,085,000	5,255,087	3,090,000	65,250,087	3,225,000
Total bonds payable	74,005,000	5,255,087	3,820,000	75,440,087	4,170,000
Capital leases	928,796	41,835	424,535	546,096	289,106
Notes payable	1,205,070	290,000	377,923	1,117,147	286,358
Net pension obligation	21,076,031	4,083,527	-	25,159,558	-
Compensated absences	9,223	-	-	9,223	9,223
Total governmental activities long-term liabilities	\$ 97,224,120	\$ 9,670,449	\$ 4,622,458	\$ 102,272,111	\$ 4,754,687
Business-type activities:					
Revenue bonds payable:					
Water Utility	\$ 4,175,000	\$ -	\$ 310,000	\$ 3,865,000	\$ 640,000
Wastewater Utility	28,425,000	54,160,000	24,494,000	58,091,000	1,205,000
Economic development	265,000	-	175,000	90,000	90,000
District parking facility	2,130,000	-	105,000	2,025,000	116,000
Total bonds payable	34,995,000	54,160,000	25,084,000	64,071,000	2,051,000
Loans payable	65,150,000	-	3,012,920	62,137,080	2,610,000
Notes payable	199,369	-	64,027	135,342	47,219
Capital leases	208,757	-	172,065	36,692	21,019
Total governmental activities long-term liabilities	\$ 100,553,126	\$ 54,160,000	\$ 28,333,012	\$ 126,380,114	\$ 4,729,238

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Contingent Receivable – Forgivable Loans

The City has contingent receivables resulting from rehabilitation and improvement loans made through various Community Development Block Grant Programs. The loans become receivable only if recipients do not meet occupancy or other requirements. Loans balances are systematically "forgiven" (reduced without cash payment) each year the recipient meets the requirements. The receivable is contingent upon the recipient not meeting the requirements and the amount of the receivable is not known until that time. The following schedule shows the changes in this contingent receivable for 2006:

Balance of forgivable loans 01-01-06		\$ 374,194
Amounts forgiven		86,265
Principal amount paid on loans		<u>6,966</u>
Balance of forgivable loans 12-31-06		<u>\$ 280,963</u>

I. Restricted Assets

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

Customer deposits		\$ 102,720
Revenue bond operations and maintenance account		<u>35,627,682</u>
Total restricted assets		<u>\$ 35,730,402</u>

J. Restatements and Reclassifications

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the primary government. The following schedule presents a summary of restated beginning balances by fund type. New Funds represents the inclusion of existing funds which were not presented in the prior report. Prior period adjustments represent corrections in the presentation of capital assets and corrections of errors.

Opinion Unit	Balance as Reported December 31, 2005	New Funds	Prior Period Adjustments	Balance as Restated January 1, 2006
Governmental activities	\$ 114,454,169	\$ 51,699	\$ (2,421,561)	\$ 112,084,307
Business-type activities	94,997,762	-	(5,051,753)	89,946,009
Other governmental funds	20,662,328	-	304,179	20,966,507
Water Utility	29,776,460	-	91,691	29,868,151
Wastewater Utility	63,999,316	-	(5,191,122)	58,808,194
Other enterprise funds	1,221,986	-	47,678	1,269,664
Internal service funds	415,990	51,699	-	467,689

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The primary government is 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; dental and vision medical benefits to employees; unemployment compensation benefits; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Dental and Vision Medical Benefits

The primary government has chosen to establish a risk financing fund for risks associated with medical benefits to employees for dental and vision coverage. The risk financing fund is accounted for in the Dental/Vision Insurance Fund, an internal service fund, where assets are set aside for claim settlements. A premium is charged to each fund that accounts for dental and vision coverage. The total charge allocated to each of the funds is calculated using trends in actual claims experience. The plan is administered by Stewart Miller. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred.

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

	2006	2005
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims	555,186	570,038
Claim payments	555,186	570,038
Unpaid claims, end of fiscal year	\$ -	\$ -

Job Related Illnesses or Injuries to Employees

The primary government has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$250,000 per individual and \$1,000,000 per aggregate annually. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	2006	2005
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims	165,760	94,971
Claim payments	165,760	94,971
Unpaid claims, end of fiscal year	\$ -	\$ -

Unemployment Compensation Benefits

The primary government has chosen to establish a risk financing fund for risks associated with unemployment compensation insurance. The risk financing fund is accounted for in each fund from where the employee's salary was paid.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay outs and other economic and social factors.

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

	2006	2005
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims	58,378	77,560
Claim payments	58,378	77,560
Unpaid claims, end of fiscal year	\$ -	\$ -

B. Subsequent Events

Subsequent to the financial statement date of December 31, 2006, the City has entered into the following material contracts, agreements and obligations:

On February 1, 2007, the Board of Works approved a contract for the construction work related to the LUR utility extension project in the amount of \$1,957,207.

On April 17, 2007, the Board of Works approved a contract for the construction work related to the Ross Road Lift Station project in the amount of \$831,500.

On April 24, 2007, the Board of Works approved a contract for the construction work related to the Charles Street Improvement project in the amount of \$200,321.

On May 1, 2007, the Board of Works approved contracts for professional engineering services not to exceed \$1,519,900 related to the Pearl River CSO project.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

On May 29, 2007, the Board of Works approved a contract for the construction work related to the 2007 Street Resurfacing and Improvements project in the amount of \$559,488.

On June 19, 2007, the Board of Works approved a contract for the construction work related to the 2007 Curb and Sidewalk Replacement project in the amount of \$317,027.

On June 26, 2007, the Board of Works approved a contract for the construction work related to the 21st Street Improvement project in the amount of \$215,717.

C. Conduit Debt Obligation

The primary government has issued the Indiana Variable Rate Demand Economic Development Revenue Bonds of 2003 to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the primary government, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2006, the sole series of bonds outstanding had an aggregate principal amount payable of \$2,170,000.

D. City/County Interlocal Agreement

An interlocal agreement between the Tippecanoe County Redevelopment Commission and the City of Lafayette Redevelopment Commission was entered into in 2001. The agreement provides for the allocation of TIF distributions related to the Southeast Industrial Expansion Economic Development Area and the McCarty Lane Economic Development Area.

Under the terms of the agreement, Tippecanoe County established a Southeast Industrial Expansion Economic Development TIF District to finance public improvements within the defined District. The City had established the McCarty TIF District. In accordance with the interlocal agreement, the public improvements mutually benefit the Districts.

The County has pledged one-half of the actual TIF proceeds from the Southeast Industrial Expansion District for the agreed upon public improvements which will be constructed and owned by the City. The City has pledged one-half of the actual TIF proceeds from the McCarty Lane TIF District for the agreed upon public improvements which will be constructed and owned by the County.

Under the terms of the agreement, the County has established a Southeast Industrial TIF Fund to account for the funds used to pay for the public improvements which will be constructed and administered by the City. The payments for these projects are initiated by the City then reviewed, approved and paid by the County. At December 31, 2006, the Southeast Industrial TIF Fund had \$1,585,701 held for these capital projects.

The City has established a TIF County's South East Fund to account for the McCarty TIF District funds used to pay for the public improvements which will be constructed and administered by the County. The payments for these projects are initiated by the County then reviewed, approved and paid by the City. At December 31, 2006, the TIF County's South East Fund had \$396,153 held for these capital projects.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Postemployment Benefits

In addition to the pension benefits described below, effective September 6, 1996, the primary government provides a portion of postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all firefighters who retire from the primary government on or before December 31, 1998, and for all police officers who retire from the City on or before December 31, 2001. The total of said benefits shall be \$4,800, credited at a rate of \$100 per month for the retiree to continue coverage under the City health insurance plan. This benefit will terminate at the \$4,800 individual limit, or immediately upon the firefighter/police officer or spouse/dependent becoming covered by another group plan with no preexisting health clause, or if the firefighter/police officer or spouse/ dependent becomes eligible for Medicare. Currently, two firefighters and two police officers meet these eligibility requirements. The primary government provides 100% of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of \$2,100 for the fire and \$2,100 for the police were recognized for postemployment benefits.

F. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The primary government contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the primary government authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. 1925 Police Officers' Pension Plan

Plan Description

The primary government contributes to the 1925 Police Officers' Pension Plan which 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 and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The primary government's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the primary government results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The primary government contributes to the 1937 Firefighters' Pension Plan which 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 and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 617,831	\$ 1,676,800	\$ 2,703,200
Interest on net pension obligation	(36,422)	606,600	1,005,600
Adjustment to annual required contribution	41,505	(661,300)	(1,096,200)
Annual pension cost	622,914	1,622,100	2,612,600
Contributions made	622,274	1,176,764	1,783,085
Increase in net pension obligation	640	445,336	829,515
Net pension obligation, beginning of year	(502,370)	8,987,096	14,897,611
Net pension obligation, end of year	\$ (501,730)	\$ 9,432,432	\$ 15,727,126

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5.25%	887%	440%
Plan Members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-06	01-01-06
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 484,703	115%	\$ (474,439)
	06-30-05	574,986	105%	(502,370)
	06-30-06	622,914	108%	(501,730)
1925 Police Officers' Pension Plan	12-31-03	2,332,900	38%	7,309,532
	12-31-04	2,268,300	26%	8,987,096
	12-31-05	1,622,100	73%	9,432,432
1937 Firefighters' Pension Plan	12-31-03	3,565,400	34%	13,132,387
	12-31-04	3,558,500	50%	14,897,611
	12-31-05	2,612,600	68%	15,727,126

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	61	75
Terminated employees entitled to but not yet receiving benefits	-	-
Current active employees	5	10

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

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 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$2,367,347, \$2,237,763, and \$2,617,735, respectively, equal to the required contributions for each year.

G. Refunding Bond Issues

On October 18, 2006, the City of Lafayette issued \$26,590,000 in refunding revenue bonds with an average interest rate of 4.27% to advance refund \$23,935,000 of outstanding Wastewater Improvement Revenue Bonds of 2002 with an average interest rate of 5.08%. The net proceeds of \$25,084,474 (after payment of \$351,852 in issuance costs and \$1,153,674 in bond discount) and local contributions of \$206,576 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Wastewater Improvement Revenue Bonds of 2002. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Balance Sheet and Statement of Net Assets. The refunding resulted in the accounting loss of \$1,427,597, which has been recognized on the Balance Sheet as Deferral of Loss on Refunding. This amount will be amortized using the straight-line method and charged to interest expense over the next 19 years. The City of Lafayette in effect reduced its aggregate debt service payment by \$5,355,862 over the next 19 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$4,502,224.

CITY OF LAFAYETTE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 9,806,097	\$ 10,538,045	\$ (731,948)	93%	\$ 11,582,395	(6%)
07-01-05	10,283,049	11,316,934	(1,033,885)	91%	11,449,596	(9%)
07-01-06	11,015,226	11,680,864	(665,638)	94%	12,224,390	(5%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 73,872	\$ 24,012,300	\$ (23,938,428)	0%	\$ 323,100	(7,409%)
01-01-02	1,347,018	24,113,300	(22,766,282)	6%	299,400	(7,604%)
01-01-03	1,534,461	23,676,100	(22,141,639)	6%	382,600	(5,787%)
01-01-04	953,193	22,607,400	(21,654,207)	4%	218,200	(9,924%)
01-01-05	135,770	22,318,500	(22,182,730)	1%	224,200	(9,894%)
01-01-06	(160,899)	22,696,700	(22,857,599)	(1%)	189,100	(12,088%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 8,357	\$ 35,594,900	\$ (35,586,543)	0%	\$ 756,000	(4,707%)
01-01-02	1,593,225	36,517,400	(34,924,175)	4%	626,500	(5,574%)
01-01-03	2,258,287	33,855,200	(31,596,913)	7%	1,065,200	(2,966%)
01-01-04	1,506,063	35,630,100	(34,124,037)	4%	610,800	(5,587%)
01-01-05	1,355,120	34,737,800	(33,382,680)	4%	582,700	(5,729%)
01-01-06	1,050,422	35,555,500	(34,505,078)	3%	614,300	(5,617%)

CITY OF LAFAYETTE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-00	\$ 2,421,700	29%	33%
12-31-01	2,499,100	47%	57%
12-31-02	2,594,800	30%	34%
12-31-03	2,597,100	1%	33%
12-31-04	2,636,900	4%	18%
12-31-05	1,676,800	22%	48%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-00	\$ 3,757,300	21%	15%
12-31-01	3,764,300	42%	52%
12-31-02	3,964,200	38%	31%
12-31-03	4,051,800	1%	29%
12-31-04	4,220,700	5%	37%
12-31-05	2,703,200	26%	40%

CITY OF LAFAYETTE
AUDIT RESULTS AND COMMENTS

DISTRIBUTIONS OF GROSS REVENUES TO VARIOUS FUNDS PER BOND ORDINANCES

As previously noted in Reports B26174 and B28570, gross revenues were not distributed to the various utility funds in accordance with the following bond ordinances:

Sewage Works Revenue Bonds of 2000
Sewage Works Revenue Bonds of 2002
Sewage Works Revenue and Refunding Bonds of 2006

Lafayette Redevelopment Commission Resolution 1996-6 adopted September 26, 1996, established funds and required balances in connection with the Columbia Parking Facility. The Operating and Repair Reserve Fund and Maintenance Reserve Fund are to have minimum balances of \$30,000 and \$20,000, respectively. As of December 31, 2006, these funds only had balances of \$29,123 (Operating and Repair Reserve Fund) and \$638 (Maintenance Reserve Fund).

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UNAPPROVED BAD DEBT WRITE-OFF POLICY

The City formalized a policy for the Utility Billing Office for the removal of uncollectible accounts or bad debts. This policy was not presented to the Board of Public Works for formal adoption as City policy.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines for City and Town, Chapter 7)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
Local Road and Street	\$ 228,080
Cumulative Capital Development	334,875
Redevelopment	4,472

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

OVERDRAWN CASH BALANCES

The cash balance of the General Fund, Economic Revitalization Fund, Thoroughfare Fund, the TIF North 9th Street Fund, Pitman Block Fund, and the Storm Water Operating Fund were overdrawn at December 31, 2006.

CITY OF LAFAYETTE
AUDIT RESULTS AND COMMENTS
(Continued)

The cash 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)

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping, were present during our period of audit:

1. As noted in prior Reports B26174 and B28570, the City ledgers still contain an excessive number of posting errors and correcting and/or adjusting entries. Types of posting and other errors include: receipts and disbursements posted to an incorrect fund, miscalculations of amounts of principal and interest on bond issue payments, and errors in posting capital lease payments.
2. At the time of audit, the City had not computed several accruals, though these accruals were completed in time to be included in the financial presentation. The City also had not performed certain other year-end accounting tasks. These accruals and tasks included:
 - a. The computation of taxes and certain intergovernmental receivables required for fair presentation in compliance with GASB 33;
 - b. The amortization of bond issue costs, deferred losses on refunding of debt, bond discounts and premiums;
 - c. The computation of accrued wages payable;
 - d. The valuations of inventories and adjusting entries;
 - e. Clearing and/or suspension accounts had not been reviewed to insure they had been properly zeroed out; and,
 - f. Interfund receivables and payables had not been reviewed to insure the asset and liability balances agreed and that all appropriate balances had been repaid in a timely basis.
3. Our review of the Payroll Fund indicated an unidentified cash balance of \$100,004. As an agency fund for the accounting of payroll transactions in a purely custodial capacity, this fund should not accumulate any cash that is not due a specific outside entity, either through income or unsupported transfers from other funds. The cash balance in this fund should be equal to the unremitted net payroll and withholdings that have been transferred into it. A portion of this excess cash balance is due to cobra fees assessed former City employees, interest earnings, and other miscellaneous receipts that have been posted to the payroll fund. All such receipts and corresponding costs such as administrative fees should be posted directly to another fund specified by the City Council. The City should determine the source of this excess cash balance and transfer it to the appropriate funds.

CITY OF LAFAYETTE
AUDIT RESULTS AND COMMENTS
(Continued)

4. The budget and actual reports generated by the City contained several errors. Several payments for the additions to capital assets, continuing construction work in progress and payments on long-term bonds, loans and leases were not posted to the proper budgetary category or were totally omitted from the budgetary reporting. We also noted errors in the recording of initially approved budgets and budgetary adjustments, such as additional appropriations and encumbrances. Such deficiencies resulted in the City being unable to monitor adherence to spending limits imposed by budget appropriations, identify areas which may require additional appropriations, or investigate unexpected spending. The City needs to investigate the operating requirements of the budget and actual reports and make such adjustments as are required to have meaningful reports.

5. We also noted the City was not consistent in the methodology of recording like classes of transactions, such as payments on long term debts, payments for capital assets and continuing work in progress, corrections of posting errors, expenditures of nonexpense items, transferring amounts from one fund to another and transferring amounts within a fund from one account to another. We also noted inconsistencies in wording of the explanations that would accompany a journal entry. Both types of inconsistencies resulted in a lack of reliability of the general ledger transactions. The City needs to investigate and implement standardized accounting entries for like classes of transactions.

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Lafayette (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

September 12, 2007

CITY OF LAFAYETTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant			
Community Development Block Grant - Entitlement and Housing and Urban Development Administered Small Cities Cluster Community Development Block Grants/Entitlement Grants	14.218	B01-MC18008 B02-MC18008 B03-MC18008 B04-MC18008 B05-MC18008 B06-MC18008	\$ 16,867 29,527 47,775 178,057 533,966 85,796
Total for program			<u>891,988</u>
Home Investment Partnerships Program	14.239	M01DC180212 M02DC180212 M03DC180212 M04DC180212 M05DC180212 M06DC180212	395 2,220 49,309 167,490 322,014 67,101
Total for program			<u>608,529</u>
Total for federal grantor agency			<u>1,500,517</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-F4498-IN-DJ	<u>6,859</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety			
	20.600	PT-06-04-07-50 154AL-06-03-03-22 157PT-2006-04-06-03 J8-06-03-08-07	11,222 23,955 48,853 62,104
Total for program			<u>146,134</u>
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	K8-07-03-01-20 154AL-07-02-02-04 PT07-04-01-47	12,564 4,738 4,864 14,102
Total for program			<u>36,268</u>
Total for federal grantor agency			<u>182,402</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds			
	66.458	CS18215202	<u>5,179</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant			
Assistance to Firefighters Grant	97.044	2005-62-0501 RE-63000000-4101-R 2006-62-0501 RE-63000000-4101-R	362,247 70,336
Total for federal grantor agency			<u>432,583</u>
Total federal awards expended			<u>\$ 2,127,540</u>

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

CITY OF LAFAYETTE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lafayette (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note II. Subrecipients

Of the federal expenditures presented in the schedule, the primary government provided federal awards to subrecipients as follows for the year ended December 31, 2006:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	\$ 118,253
Edward Byrne Memorial Justice Assistance Grant Program	16.738	6,859

CITY OF LAFAYETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? 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 Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
97.044	Community Development Block Grants - Entitlement and Housing and Urban Development Administered Small Cities 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

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF LAFAYETTE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF LAFAYETTE
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2007, with J. Michael Jones, Controller; Tony Roswarski, Mayor; Cindy Murray, President of the Board of Public Works and Safety; and Edward Chosnek, City Attorney. The officials concurred with our audit findings.