

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

ANNUAL FINANCIAL REPORT

2010

CITY OF LAFAYETTE

TIPPECANOE COUNTY, INDIANA



FILED
08/22/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	J. Michael Jones	01-01-10 to 12-31-11
Mayor	Tony Roswarski	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Cindy Murray Gary Henriott	01-01-10 to 12-31-10 01-01-11 to 12-31-11
President of the Common Council	Melissa Weast-Williamson Ronald Campbell	01-01-10 to 12-31-10 01-01-11 to 12-31-11



STATE OF INDIANA
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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, 2010, which collectively comprise the City's primary government basic financial statements as listed in the Table of Contents. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over reporting. 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 opinions.

The City provides postemployment benefits to retired employees by allowing them to remain on the City's health insurance plan. The City has not implemented the requirements of GASB 45 in providing actuarially sound information related to the computation or inclusion of any liability associated with the benefits.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the liabilities related to postemployment benefits, 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, 2010, 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 of America.

The Schedules of Funding Progress, Schedules of Contributions From the Employer and Other Contributing Entities, and Budgetary Comparison Schedules, as listed in the Table of Contents, are not a required part 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.

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

The City has not presented Management Discussion and Analysis 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 August 4, 2011, 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.

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.

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

STATE BOARD OF ACCOUNTS

August 4, 2011



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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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 4, 2011. The opinions to the financial statements were qualified due to the scope limitation resulting from the lack of actuarial information regarding the postemployment benefits. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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, the City Council, the Board of Public Works and Safety, others within the entity, 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

August 4, 2011

CITY OF LAFAYETTE
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 26,636,527	\$ 20,028,488	\$ 46,665,015
Cash with fiscal agent	1,451,124	-	1,451,124
Receivables (net of allowances for uncollectibles):			
Taxes	3,868,332	-	3,868,332
Accounts	712,780	2,855,996	3,568,776
Interest	336,600	-	336,600
Intergovernmental	2,616,909	-	2,616,909
Loans	670,572	2,757,500	3,428,072
Internal balances	10,180	2,013,898	2,024,078
Inventories	297,982	949,666	1,247,648
Prepaid expense	818,639	200,730	1,019,369
Net pension assets	204,953	125,618	330,571
Deferred debits	1,495,368	2,076,841	3,572,209
Restricted assets:			
Customer Deposits	-	116,224	116,224
Cash and cash equivalents	2,180,025	3,273,234	5,453,259
Capital assets:			
Land, improvements and construction in progress	34,079,301	6,759,161	40,838,462
Other capital assets, net of depreciation	<u>157,805,953</u>	<u>204,970,439</u>	<u>362,776,392</u>
Total assets	<u>233,185,245</u>	<u>246,127,795</u>	<u>479,313,040</u>
 <u>Liabilities</u>			
Accounts payable	1,727,790	1,185,536	2,913,326
Accrued payroll and withholdings payable	444,369	104,947	549,316
Internal balances	2,032,194	8,871	2,041,065
Taxes payable	-	28,278	28,278
Accrued interest payable	1,002,322	2,192,855	3,195,177
Deposit for extension refund contracts	-	3,450	3,450
Deferred revenue	6,958	-	6,958
Performance deposits payable	43,106	100,130	143,236
Payable from restricted assets:			
Customer deposits	15,869	116,224	132,093
Intergovernmental payable	2,180,025	-	2,180,025
Noncurrent liabilities:			
Due within one year:			
General obligation bonds payable	825,000	-	825,000
Revenue bonds payable	3,105,000	2,690,000	5,795,000
Capital lease obligations	410,064	68,340	478,404
Notes and loans payable	260,196	3,379,000	3,639,196
Due in more than one year:			
General obligation bonds payable	6,370,000	-	6,370,000
Revenue bonds payable (net of discounts or premiums)	44,652,751	56,004,342	100,657,093
Notes and loans payable	157,771	50,749,630	50,907,401
Capital lease obligations	568,854	-	568,854
Net pension obligation	<u>23,915,711</u>	<u>-</u>	<u>23,915,711</u>
Total liabilities	<u>87,717,980</u>	<u>116,631,603</u>	<u>204,349,583</u>
 <u>Net assets</u>			
Invested in capital assets, net of related debt	135,035,618	101,628,288	236,663,906
Unrestricted	<u>10,431,647</u>	<u>27,867,904</u>	<u>38,299,551</u>
Total net assets	<u>\$ 145,467,265</u>	<u>\$ 129,496,192</u>	<u>\$ 274,963,457</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, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 4,992,367	\$ 401,044	\$ 662,208	\$ 8,317	\$ (3,920,798)	\$ -	\$ (3,920,798)
Public safety	24,985,993	91,886	903,712	-	(23,990,395)	-	(23,990,395)
Highways and streets	7,635,715	2,221,757	-	777,619	(4,636,339)	-	(4,636,339)
Sanitation	1,896,451	-	-	-	(1,896,451)	-	(1,896,451)
Economic development	9,066,563	6,907	3,262,413	167,483	(5,629,760)	-	(5,629,760)
Culture and recreation	5,649,119	1,293,707	4,548	697,189	(3,653,675)	-	(3,653,675)
Total governmental activities	54,226,208	4,015,301	4,832,881	1,650,608	(43,727,418)	-	(43,727,418)
Business-type activities:							
Water	6,761,292	7,385,503	-	-	-	624,211	624,211
Wastewater	18,078,238	22,942,360	-	-	-	4,864,122	4,864,122
Section 108	334,765	-	-	-	-	(334,765)	(334,765)
Parking Garage	163,917	90,826	-	-	-	(73,091)	(73,091)
Total business-type activities	25,338,212	30,418,689	-	-	-	5,080,477	5,080,477
Total primary government	\$ 79,564,420	\$ 34,433,990	\$ 4,832,881	\$ 1,650,608	(43,727,418)	5,080,477	(38,646,941)
General revenues:							
Property taxes					36,383,599	-	36,383,599
Intergovernmental revenues					13,167,939	-	13,167,939
Gain on disposal of assets					29,339	12,305	41,644
Other revenues					4,916,284	4,303	4,920,587
Unrestricted investment earnings					49,883	457,215	507,098
Contributed capital					-	692,948	692,948
Transfers					(818,911)	818,911	-
Total general revenues and transfers					53,728,133	1,985,682	55,713,815
Change in net assets					10,000,715	7,066,159	17,066,874
Net assets - beginning					135,466,550	122,430,033	257,896,583
Net assets - ending					\$ 145,467,265	\$ 129,496,192	\$ 274,963,457

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

CITY OF LAFAYETTE
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

<u>Assets</u>	<u>General</u>	<u>Streets</u>	<u>Park and Recreation</u>	<u>Redevelopment Authority</u>	<u>EDIT</u>	<u>TIF Allocation Creasy</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ (22,914)	\$ 1,698,138	\$ 580,655	\$ 3,126,448	\$ 2,093,821	\$ 6,884,394	\$ 11,506,485	\$ 25,867,027
Cash with fiscal agent	-	-	-	-	-	-	1,451,124	1,451,124
Receivables (net of allowances for uncollectibles):								
Interest	-	-	-	336,600	-	-	-	336,600
Taxes	2,025,035	189,671	382,815	-	-	586,121	684,690	3,868,332
Accounts	11,257	575	11,730	-	-	4,605	684,611	712,778
Intergovernmental	1,245,686	397,297	35,839	-	872,057	36,847	29,182	2,616,908
Loans	-	-	-	-	-	204,514	466,058	670,572
Interfund receivable:								
Interfund services provided and used	2,014	1,414	3,435	-	-	-	19	6,882
Restricted assets:								
Cash and cash equivalents	-	-	-	-	-	-	2,180,025	2,180,025
Total assets	\$ 3,261,078	\$ 2,287,095	\$ 1,014,474	\$ 3,463,048	\$ 2,965,878	\$ 7,716,481	\$ 17,002,194	\$ 37,710,248
<u>Liabilities and fund balances</u>								
Liabilities:								
Accounts payable	\$ 157,060	\$ 134,935	\$ 56,064	\$ -	\$ 109,957	\$ 389,469	\$ 747,181	\$ 1,594,666
Accrued payroll and withholdings payable	355,521	47,278	32,371	-	-	-	9,199	444,369
Intergovernmental payable	-	-	-	-	-	-	2,180,025	2,180,025
Accrued interest payable	-	-	150,226	359,518	9,770	416,311	66,497	1,002,322
Deferred revenue	-	-	6,958	-	-	-	-	6,958
Deferred revenue - unavailable	209,937	22,973	35,839	-	872,057	-	25,042	1,165,848
Performance deposits payable	1,500	-	14,369	-	-	-	43,106	58,975
Interfund payable:								
Interfund services provided and used	2,024,710	1,207	3,242	-	1,316	-	1,717	2,032,192
Total liabilities	2,748,728	206,393	299,069	359,518	993,100	805,780	3,072,767	8,485,355
Fund balances:								
Unrestricted	512,350	2,080,702	715,405	3,103,530	1,972,778	6,910,701	13,929,427	29,224,893
Total liabilities and fund balances	\$ 3,261,078	\$ 2,287,095	\$ 1,014,474	\$ 3,463,048	\$ 2,965,878	\$ 7,716,481	\$ 17,002,194	

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.	191,885,254
Inventories used in governmental activities are not financial resources and, therefore, are not reported in the funds.	94,275
Prepaid expenses used in governmental activities are not financial resources and, therefore, are not reported in the funds.	818,639
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	1,495,368
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	1,165,848
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.	843,380
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(56,349,634)
Net pension obligations is not due and payable in the current period and, therefore, are not reported in the funds.	(23,710,758)
Net assets of governmental activities	\$ 145,467,265

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

CITY OF LAFAYETTE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2010

	General	Streets	Park and Recreation	Redevelopment Authority	EDIT	TIF Allocation Creasy	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 20,603,788	\$ 2,534,389	\$ 4,040,574	\$ -	\$ -	\$ 6,397,097	\$ 5,706,688	\$ 39,282,536
Licenses and permits	132,842	-	-	-	-	-	17,610	150,452
Intergovernmental	7,293,614	3,223,938	289,011	-	4,230,414	-	3,321,826	18,358,803
Charges for services	399,150	8,150	1,271,704	-	-	-	221,784	1,900,788
Fines and forfeits	119,656	-	-	-	-	-	29,653	149,309
Other	2,973,546	40,027	161,408	4,620,440	-	1,754,619	2,301,850	11,851,890
Total revenues	31,522,596	5,806,504	5,762,697	4,620,440	4,230,414	8,151,716	11,599,411	71,693,778
Expenditures:								
Current:								
General government	2,923,056	-	-	-	-	-	560,097	3,483,153
Public safety	24,389,335	-	-	-	-	-	1,281,596	25,670,931
Highways and streets	-	4,938,531	-	-	-	-	-	4,938,531
Sanitation	1,667,735	-	-	-	-	-	-	1,667,735
Economic development	-	-	-	5,799,018	4,976,494	3,392,334	7,287,003	21,454,849
Culture and recreation	-	-	5,432,906	-	-	-	-	5,432,906
Capital outlay:								
General government	3,200	-	-	-	-	-	-	3,200
Public safety	36,522	-	-	-	-	-	80,810	117,332
Highways and streets	-	244,787	-	-	-	-	-	244,787
Culture and recreation	-	-	63,229	-	-	-	-	63,229
Economic development	-	-	-	-	717,468	3,956,432	3,723,340	8,397,240
Total expenditures	29,019,848	5,183,318	5,496,135	5,799,018	5,693,962	7,348,766	12,932,846	71,473,893
Excess (deficiency) of revenues over (under) expenditures	2,502,748	623,186	266,562	(1,178,578)	(1,463,548)	802,950	(1,333,435)	219,885
Other financing sources (uses):								
Bond issue and loan proceeds	-	-	-	26,290,000	675,396	-	-	26,965,396
Bond refunding payoffs	-	-	-	(27,340,000)	-	-	-	(27,340,000)
Total other financing sources and uses	-	-	-	(1,050,000)	675,396	-	-	(374,604)
Net change in fund balances	2,502,748	623,186	266,562	(2,228,578)	(788,152)	802,950	(1,333,435)	(154,719)
Fund balances - beginning	(1,990,398)	1,457,516	448,843	5,332,108	2,760,930	6,107,751	15,262,862	29,379,612
Fund balances - ending	\$ 512,350	\$ 2,080,702	\$ 715,405	\$ 3,103,530	\$ 1,972,778	\$ 6,910,701	\$ 13,929,427	\$ 29,224,893

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, 2010

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).	\$ (154,719)
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 deprecial expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,677,264
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	102,446
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(3,316,545)
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to govern-mental 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.	8,247,209
Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.	1,590,459
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.	788,923
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 tranafers.	(818,911)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>(115,411)</u>
Change in net assets of governmental activities (statement of activities)	<u>\$ 10,000,715</u>

CITY OF LAFAYETTE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

Assets	Business-Type Activities - Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Total	
Current assets:					
Cash and cash equivalents	\$ 3,373,392	\$ 16,544,184	\$ 110,912	\$ 20,028,488	\$ 769,498
Accounts receivable (net of allowance)	323,647	2,532,349	-	2,855,996	-
Loans receivable	-	-	2,757,500	2,757,500	-
Internal Balances	10,049	2,003,849	-	2,013,898	3,297
Inventories	269,916	679,750	-	949,666	203,707
Prepaid items	95,200	105,530	-	200,730	-
Total current assets	4,072,204	21,865,662	2,868,412	28,806,278	976,502
Noncurrent assets:					
Restricted cash, cash equivalents and investments:					
Customer deposits	116,224	-	-	116,224	-
Revenue bond covenant accounts	-	3,155,774	117,460	3,273,234	-
Total restricted assets:	116,224	3,155,774	117,460	3,389,458	-
Deferred charges	62,044	1,984,797	30,000	2,076,841	-
Capital assets:					
Land, improvements to land and construction in progress					
	1,298,097	4,777,082	683,982	6,759,161	-
Other capital assets (net of accumulated depreciation)	31,750,361	170,768,356	2,451,722	204,970,439	-
Total capital assets	33,048,458	175,545,438	3,135,704	211,729,600	-
Pension benefit assets	56,198	69,420	-	125,618	-
Total noncurrent assets	33,282,924	180,755,429	3,283,164	217,321,517	-
Total assets	37,355,128	202,621,091	6,151,576	246,127,795	976,502
Liabilities					
Current liabilities:					
Accounts payable	226,263	955,140	4,133	1,185,536	133,121
Retainage payable	3,849	96,281	-	100,130	-
Interfund payables:					
Interfund services provided and used	3,540	5,331	-	8,871	-
Taxes payable	28,278	-	-	28,278	-
Accrued wages payable	41,254	63,693	-	104,947	-
Other payable	3,450	-	-	3,450	-
Current liabilities payable from restricted assets:					
Customer deposits	116,224	-	-	116,224	-
Revenue bonds payable	770,000	1,755,000	165,000	2,690,000	-
Notes and loans payable	-	3,324,000	55,000	3,379,000	-
Capital leases payable	-	68,340	-	68,340	-
Accrued interest payable	20,898	2,100,971	70,986	2,192,855	-
Total current liabilities	1,213,756	8,368,756	295,119	9,877,631	133,121
Noncurrent liabilities:					
Revenue bonds payable (net of unamortized discounts or premiums)					
	368,742	54,308,600	1,327,000	56,004,342	-
Notes and loans payable	-	48,014,630	2,735,000	50,749,630	-
Total noncurrent liabilities	368,742	102,323,230	4,062,000	106,753,972	-
Total liabilities	1,582,498	110,691,986	4,357,119	116,631,603	133,121
Net assets					
Invested in capital assets, net of related debt					
Unrestricted	31,909,716	68,074,868	1,643,704	101,628,288	-
	3,862,914	23,854,237	150,753	27,867,904	843,381
Total net assets	\$ 35,772,630	\$ 91,929,105	\$ 1,794,457	\$ 129,496,192	\$ 843,381

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

CITY OF LAFAYETTE
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2010

	Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Total	
Operating revenues:					
Unmetered water revenue	\$ 6,426	\$ -	\$ -	\$ 6,426	\$ -
Metered water revenue:					
Residential	3,235,848	-	-	3,235,848	-
Commercial	1,660,512	-	-	1,660,512	-
Industrial	755,446	-	-	755,446	-
Fire protection revenue	1,210,871	-	-	1,210,871	-
Measured revenue:					
Residential	-	6,666,524	-	6,666,524	-
Commercial	-	5,101,898	-	5,101,898	-
Industrial	-	10,499,895	-	10,499,895	-
Other	529,512	677,544	90,826	1,297,882	1,197,322
Total operating revenues	7,398,615	22,945,861	90,826	30,435,302	1,197,322
Operating expenses:					
Source of supply and expense - operations and maintenance	996,444	-	-	996,444	-
Water treatment expense - operations and maintenance	286,975	-	-	286,975	-
Transmission and distribution	858,576	-	-	858,576	-
Pumping - operations and maintenance	119,930	-	-	119,930	-
Collection system - operations and maintenance	-	1,163,855	-	1,163,855	-
Treatment and disposal expense - operations and maintenance	-	2,630,978	-	2,630,978	-
Customer accounts	562,478	536,547	-	1,099,025	-
Administration and general	2,680,523	4,449,605	-	7,130,128	1,312,733
Bad debt expense	29,866	35,850	-	65,716	-
Depreciation and amortization	1,039,991	5,735,808	66,865	6,842,664	-
Miscellaneous expenses	5,212	6,439	4,069	15,720	-
Total operating expenses	6,579,995	14,559,082	70,934	21,210,011	1,312,733
Operating income	818,620	8,386,779	19,892	9,225,291	(115,411)
Nonoperating revenues (expenses):					
Interest and investment revenue	20,810	86,440	349,966	457,216	-
Amortization of bond costs	(62,042)	(135,676)	(5,000)	(202,718)	-
Interest expense	(19,520)	(3,369,206)	(422,749)	(3,811,475)	-
Miscellaneous expense	(99,735)	(14,275)	-	(114,010)	-
Total nonoperating revenue (expenses)	(160,487)	(3,432,717)	(77,783)	(3,670,987)	-
Income (loss) before contributions and transfers	658,133	4,954,062	(57,891)	5,554,304	(115,411)
Capital contributions	186,859	506,090	-	692,949	-
Transfers in	-	665,908	153,000	818,908	-
Change in net assets	844,992	6,126,060	95,109	7,066,161	(115,411)
Total net assets - beginning	34,927,638	85,803,045	1,699,348	122,430,031	958,792
Total net assets - ending	\$ 35,772,630	\$ 91,929,105	\$ 1,794,457	\$ 129,496,192	\$ 843,381

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, 2010

	Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Total	
Cash flows from operating activities:					
Receipts from customers and users	\$ 7,359,490	\$ 22,939,125	\$ 90,826	\$ 30,389,441	\$ 1,191,774
Payments to suppliers	(3,580,378)	(6,099,485)	(4)	(9,679,867)	(1,312,710)
Payments to employees	(2,062,593)	(3,186,793)	-	(5,249,386)	-
Net cash provided by operating activities	<u>1,716,519</u>	<u>13,652,847</u>	<u>90,822</u>	<u>15,460,188</u>	<u>(120,936)</u>
Cash flows from noncapital financing activities:					
Transfer from other funds	-	-	153,000	153,000	-
Nonoperating revenue	39,125	6,735	122,500	168,360	-
Net cash provided by noncapital financing activities	<u>39,125</u>	<u>6,735</u>	<u>275,500</u>	<u>321,360</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(935,407)	(6,453,499)	-	(7,388,906)	-
Principal paid on capital debt	(740,000)	(3,301,000)	(271,000)	(4,312,000)	-
Interest paid on capital debt	(63,858)	(3,369,207)	(474,102)	(3,907,167)	-
Net cash used by capital and related financing activities	<u>(1,739,265)</u>	<u>(13,123,706)</u>	<u>(745,102)</u>	<u>(15,608,073)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	20,810	86,440	349,966	457,216	-
Net increase (decrease) in cash and cash equivalents	37,189	622,316	(28,814)	630,691	(120,936)
Cash and cash equivalents, January 1 (Including \$113,564 and \$2,351,319 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)					
	<u>3,452,428</u>	<u>19,077,642</u>	<u>257,186</u>	<u>22,787,256</u>	<u>890,433</u>
Cash and cash equivalents, December 31 (Including \$116,224 and \$3,273,234 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)					
	<u>\$ 3,489,617</u>	<u>\$ 19,699,958</u>	<u>\$ 228,372</u>	<u>\$ 23,417,947</u>	<u>\$ 769,497</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 818,620	\$ 8,386,779	\$ 19,892	\$ 9,225,291	\$ (115,411)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	1,039,991	5,735,808	66,865	6,842,664	-
(Increase) decrease in assets:					
Accounts receivable	2,872	(245,941)	-	(243,069)	-
Other receivable	6,261	27,179	-	33,440	(3,297)
Inventories	(2,016)	(5,163)	-	(7,179)	(33,207)
Prepaid items	(95,200)	30,476	-	(64,724)	-
Pension benefit assets	5,212	6,439	-	11,651	-
Increase (decrease) in liabilities:					
Customer deposits	5,410	-	-	5,410	-
Accounts payable	(20,920)	(94,742)	4,065	(111,597)	30,979
Accrued wages payable	7,976	13,201	-	21,177	-
Bond issue costs	(62,042)	(135,676)	-	(197,718)	-
Interfund services provided and used	(14,234)	(6,036)	-	(20,270)	-
Other payable	24,589	(59,477)	-	(34,888)	-
Total adjustments	<u>897,899</u>	<u>5,266,068</u>	<u>70,930</u>	<u>6,234,897</u>	<u>(5,525)</u>
Net cash provided by operating activities	<u>\$ 1,716,519</u>	<u>\$ 13,652,847</u>	<u>\$ 90,822</u>	<u>\$ 15,460,188</u>	<u>\$ (120,936)</u>
Noncash investing, capital and financing activities:					
Contributions of capital assets from private contractors	\$ 178,498	\$ 496,549	\$ -	675,047	\$ -

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, 2010

<u>Assets</u>	Pension Trust Funds	Agency Funds
Cash and cash equivalents	\$ 2,191,512	\$ 2,160,841
Receivables:		
Due from other funds	-	16,987
Taxes	85,295	-
Intergovernmental	-	955
Total receivables	85,295	17,942
Total assets	\$ 2,276,807	\$ 2,178,783
 <u>Liabilities</u>		
Accounts payable	\$ -	\$ 2,178,783
Total liabilities	\$ -	\$ 2,178,783
 <u>Net assets</u>		
Held in trust for:		
Employees' pension benefits and other purposes	\$ 2,276,807	
Total net assets	\$ 2,276,807	

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, 2010

<u>Additions</u>	<u>Pension Trust Funds</u>
Contributions:	
State Contributions	\$ 3,879,173
Total additions	<u>3,879,173</u>
 <u>Deductions</u>	
Benefits	3,954,517
Administrative expense	<u>14,083</u>
Total deductions	<u>3,968,600</u>
Changes in net assets	(89,427)
Net assets - beginning	<u>2,366,234</u>
Net assets - ending	<u>\$ 2,276,807</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 City's financial reporting entity is composed of the following:

Primary Government: City of Lafayette
Blended Component Unit: Lafayette Redevelopment Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Blended Component Units

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City's governing body or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Fund Included In</u>
Lafayette Redevelopment Authority	The primary government appoints a voting majority of the Authority's board and a financial benefit/burden relationship exists between the City and the Authority. Although it is legally separate from the City, the Authority is reported as if it were a part of the City because it provides services entirely or almost entirely to the City.	Governmental Funds – Redevelopment Authority

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, and to assist in undertaking housing assistance activities for HOME. Complete financial statements for the Consortium can be obtained from the City of Lafayette, 20 North Sixth Street, Lafayette, Indiana 47901.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Related Organizations

The primary government's officials are also responsible for appointing the 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 the 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.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Change in Net Assets) report information on all of the nonfiduciary activities of the City and its component units. 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.

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 City considers revenues to be available if they are collected

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City 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.

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 park and recreation 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 sub recipients.

The economic development income tax fund (EDIT) originally was created to foster positive development within the City. This fund works in conjunction with the redevelopment authority funds to accomplish this task. In addition the legislature, recognizing the fact that economic development encompasses the entire city proper, allowed the fund to be used for any legal purpose required by the City.

The creasy TIF fund accounts for resources derived from improvements from designated areas within the City. Funds are utilized for further improvements within the designated area.

The City 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, wastewater pumping stations, wastewater collection systems and storm water collection system.

Additionally, the City reports the following fund types:

The internal service fund accounts for self-insurance and other services 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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 City 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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 City'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 City'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 City to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Interfund Transactions and Balances

Activities 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 non-current 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 City 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). Normally, 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 distribution were not distributed to the City prior to December 31, of the year collected. The property taxes that were not distributed by December 31 are reported as receivable and are recognized as revenue on all financial statements. These taxes were received by March 22, 2011. Delinquent property taxes outstanding at year end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable on the statement of net assets and are recognized as tax revenues on the statement of activities. The net amounts are recognized as receivables on the funds financial statements with an offset to deferred revenue, since these amounts are not considered available.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method except for the golf course which averages costs. 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 and balance sheet because their use is limited by applicable 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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 1	N/A	N/A
Buildings and Improvements	5,000	Straight-line	40 to 60 yrs.
Building Components (HVAC, roof, etc.)	5,000	Straight-line	10 to 15 yrs.
Vehicles	5,000	Straight-line	3 to 5 yrs.
Machinery and Equipment	5,000	Straight-line	3 to 25 yrs.
Infrastructure (roads)	5,000	Straight-line	50 yrs.
Infrastructure (Water and Wastewater mains, manholes, inlets, etc.)	5,000	Straight-line	60 yrs.
Wastewater distribution and collection systems	5,000	Straight-line	45 yrs.

N/A = Not Applicable

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 City in its business-type activities during the current year was \$ 3,588,726. Of that amount, \$ 1,438 was included as part of the cost of capital assets under construction in connection with the Pearl River Lift Station and Combined Sewer outlet tunnel.

7. Compensated Absences

- a. Sick Leave – City employees earn sick leave at the rate of 1 day per month and accumulates to a maximum of 36 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – City employees earn vacation leave at rates from 10 to 25 days per year based upon the number of years of service. Vacation leave may not be carried over to the following year. Accumulated vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave – City 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.

No liability is reported for vacation, 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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

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.

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 City'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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2010, expenditures exceeded budgeted appropriations in the following funds, by the amounts below:

Fund	Amount
Local Roads and Streets	\$ 18,617
Band	3,783
Police Continuing Education	50,612
Local Option Highway User Tax	16,831
Cumulative Capital Improvement	18,839
 Total	 \$ 108,682

These expenditures were funded by existing cash reserves.

C. Deficit Fund Equity

At December 31, 2010, the following funds reported deficits in fund equity:

Fund	2010
Governmental Funds:	
Redevelopment	\$ (35,714)
Fire Grants	(1,616)
Economic Revitalization	(17,991)
DUI Taskforce	(48,476)
Weed and Seed Grant	(6,536)
Lafayette Reenter Housing	(33,768)
Redevelopment Grants	(255,737)

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

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2010, the City had no investments.

Statutory Authorization for Investments

IC 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 City 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 City'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.

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. At December 31, 2010, the City held no investment of this type.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Receivables

The Lahr loan receivable has timing and credit characteristics different from typical accounts receivable. This receivable is the result of debt proceeds from the U.S. Department of Housing and Urban Development being subsequently loaned to a developer for the renovation of property. The balance of the receivable at year end is \$2,790,000 and monthly remittances are scheduled until 2018.

C. Capital Assets

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

<u>Primary government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activity:				
Capital assets, not being depreciated:				
Land	\$ 21,896,464	\$ 2,398,788	\$ 1,548,163	\$ 22,747,089
Construction in progress	10,884,984	6,094,341	5,647,113	11,332,212
Total capital assets, not being depreciated	<u>32,781,448</u>	<u>8,493,129</u>	<u>7,195,276</u>	<u>34,079,301</u>
Capital assets, being depreciated:				
Buildings	31,500,252	1,109,687	-	32,609,939
Improvements other than buildings	7,554,188	13,940	13,940	7,554,188
Machinery and equipment	5,633,386	358,405	114,226	5,877,565
Vehicles	12,774,995	846,299	1,249,581	12,371,713
Infrastructure	174,647,452	2,883,933	11,416	177,519,969
Totals	<u>232,110,273</u>	<u>5,212,264</u>	<u>1,389,163</u>	<u>235,933,374</u>
Less accumulated depreciation for:				
Buildings	(7,647,503)	(710,863)	-	(8,358,366)
Improvements other than buildings	(2,166,086)	(367,049)	-	(2,533,135)
Machinery and equipment	(4,517,702)	(454,159)	(112,785)	(4,859,076)
Vehicles	(11,040,745)	(856,324)	(1,246,788)	(10,659,281)
Infrastructure	(49,143,772)	(2,594,206)	(11,416)	(51,726,562)
Totals	<u>(74,515,808)</u>	<u>(4,982,601)</u>	<u>(1,370,989)</u>	<u>(78,127,420)</u>
Total capital assets, being depreciated, net	<u>157,594,465</u>	<u>229,663</u>	<u>18,174</u>	<u>157,805,954</u>
Total governmental activity capital assets, net	<u>\$ 190,375,913</u>	<u>\$ 8,722,792</u>	<u>\$ 7,213,450</u>	<u>\$ 191,885,255</u>

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activity:				
Capital assets, not being depreciated:				
Land	\$ 1,993,506	\$ 51,090	\$ -	\$ 2,044,596
Construction in progress	<u>26,663,758</u>	<u>7,329,674</u>	<u>29,278,867</u>	<u>4,714,565</u>
Total capital assets, not being depreciated	<u>28,657,264</u>	<u>7,380,764</u>	<u>29,278,867</u>	<u>6,759,161</u>
Capital assets, being depreciated:				
Buildings	17,179,555	32,860	-	17,212,415
Improvements other than buildings	145,950	-	-	145,950
Machinery and equipment	72,704,468	181,270	199,286	72,686,452
Vehicles	2,313,896	495,221	116,696	2,692,421
Infrastructure	<u>127,655,486</u>	<u>30,713,557</u>	<u>-</u>	<u>158,369,043</u>
Totals	<u>219,999,355</u>	<u>31,422,908</u>	<u>315,982</u>	<u>251,106,281</u>
Less accumulated depreciation for:				
Buildings	(2,755,497)	(370,963)	-	(3,126,460)
Improvements other than buildings	(53,052)	(6,706)	-	(59,758)
Machinery and equipment	(19,553,767)	(3,604,492)	(64,861)	(23,093,398)
Vehicles	(1,711,119)	(185,200)	(102,116)	(1,794,203)
Infrastructure	<u>(15,386,720)</u>	<u>(2,675,303)</u>	<u>-</u>	<u>(18,062,023)</u>
Totals	<u>(39,460,155)</u>	<u>(6,842,664)</u>	<u>(166,977)</u>	<u>(46,135,842)</u>
Total capital assets, being depreciated, net	<u>180,539,200</u>	<u>24,580,244</u>	<u>149,005</u>	<u>204,970,439</u>
Total business-type activity capital assets, net	<u>\$ 209,196,464</u>	<u>\$ 31,961,008</u>	<u>\$ 29,427,872</u>	<u>\$ 211,729,600</u>

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

Governmental activities:	
General government	\$ 383,603
Public safety	852,477
Public works, including depreciation of general infrastructure assets	2,672,169
Health and sanitation	229,052
Culture and recreation	793,836
Community development	<u>2,167</u>
Total depreciation expense - governmental activities	<u>\$ 4,933,304</u>
Business-type activities:	
Water	\$ 1,039,991
Wastewater	5,735,808
Other	<u>66,865</u>
Total depreciation expense - business-type activities	<u>\$ 6,842,664</u>
Grand Total	<u>\$ 11,775,968</u>

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Construction Commitments

Construction work in progress at year end is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2010</u>	<u>Committed</u>
Curb Replacement for N 26th Street	\$ 152,721	\$ 143,980	\$ 8,741
Neighborhood Stabilization Program	1,150,000	581,458	568,542
Concord Road Reconstruction	1,321,680	1,281,914	39,766
Maple Point Extension	1,051,600	904,121	147,479
CR 350 Widening 9th to Concord	5,190,791	5,160,227	30,564
Creasy Lane/SR 26 Land Acquisition	50,369	2,021	48,348
Park East Extension	1,200	1,175	25
Main St. & Everett St. Vacant Lot	300	294	6
Creasy Lane Resurfacing-Turn Lane	594,000	52,850	541,150
Erie/Ferry Park	90,000	19,244	70,756
515 Columbia Street	1,000,000	941,272	58,728
Predevelopment Chatham Square	2,000,000	897,941	1,102,059
Parking Garage Equipment	104,000	103,014	986
Armstrong Park Improvements	45,000	42,788	2,212
Streetscape Phase IV	1,000,000	978,738	21,262
Bike Racks Downtown	25,000	23,913	1,087
Streetscape Alabama/3rd Street	109,255	26,196	83,059
Quiet Zone	842,300	69,669	772,631
Concord/Squoya Drainage	1,500	1,165	335
Sidewalks N26th Cason to Unions	99,950	67,848	32,102
Citywide Trail Master Plan	125,000	16,560	108,440
Traffic Signal Park 350/VMP	134,155	15,825	118,330
Video System-Columbia Park/Hannah/Depot	5,000	-	5,000
Totals Governmental Funds	15,093,821	11,332,213	3,761,608
Enterprise Funds			
Drainage Valley Street	1,500,000	43,303	1,456,697
Rome Drive Land	40,000	1,929	38,071
CSO LCTP	481,183	336,971	144,212
Pearl River CSO Tunnel	409,816	113,307	296,509
Utility Service Area 21	370,739	370,739	-
Sewer Rehab-Orchard Heights Area	617,050	481,800	135,250
Aeration Blower System-SRF #3 Project	1,827,060	1,504,321	322,739
Wea Creek Bank Stabilization Project	188,751	165,646	23,105
Pearl River Lift Station Phase 2	330,000	326,866	3,134
Orchard Heights Sewer Alignment	129,462	129,462	-
70 ton Chiller Replacement-Treatment Plant	61,722	99	61,623
Concord/Squoya Drainage	150	148	2
Green Infrastructure Feasibility & Strategy	74,068	73,819	249
Wabash River Bank Stabilization	25,695	8,790	16,905
Video System-Columbia Park/Hannah/Depot	5,000	2,782	2,218
New Wellfield Investigation	705,000	591,893	113,107
Glick Wellfield Generator	16,856	16,856	-
Onsite Chlorine Generation-Glick	355,000	80,644	274,356
2008 Compound Meter Change Out	420,000	419,323	677
Utilities at US52	59,230	45,866	13,364
Total Enterprise Funds	7,616,782	4,714,564	2,902,218
Totals	\$ 22,710,603	\$ 16,046,777	\$ 6,663,826

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Leases

1. Operating Leases

The City has no operating leases at year end,

2. Capital Leases

The City has entered into various capital leases for facilities management system upgrade, vehicles and other equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases at year end are as follows:

	<u>Government Activities</u>	<u>Business-type Activities</u>
2011	\$ 442,624	\$ 72,659
2012	240,292	-
2013	183,008	-
2014	<u>183,008</u>	<u>-</u>
Total minimum lease payments	1,048,932	72,659
Less amount representing interest	<u>70,014</u>	<u>4,319</u>
Present value of net minimum lease payments	<u>\$ 978,918</u>	<u>\$ 68,340</u>

Assets acquired through capital leases still in effect at year end, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment	\$ 143,461	\$ -
Vehicles	<u>1,439,996</u>	<u>249,938</u>
Totals	1,583,457	249,938
Accumulated depreciation	<u>(779,626)</u>	<u>(87,478)</u>
Totals	<u>\$ 803,831</u>	<u>\$ 162,460</u>

F. Short-Term Liabilities

1. Tax Anticipation Notes

The City issues tax anticipation notes in advance of property tax collections, depositing the proceeds into its general fund.

The City has no short-term debt activity at year end.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Long-Term Liabilities

1. General Obligation Bonds

The City 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 City. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Balance at December 31
Park district bonds of 1998 for aquatic center	4.6% to 4.7%	\$ 3,110,000
Park and recreation bonds of 2001	3.876% to 5%	2,030,000
Park and recreation bonds of 2003	3% to 4.3%	1,840,000
County option income tax infrastructure bonds of 2003	3% to 3.6%	<u>215,000</u>
 Total		 <u><u>\$ 7,195,000</u></u>

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

	Governmental Activities	
	Principal	Interest
2011	\$ 825,000	\$ 318,768
2012	795,000	282,607
2013	750,000	248,135
2014	790,000	213,037
2015	825,000	175,599
2016-2020	<u>3,210,000</u>	<u>296,432</u>
 Totals	 <u><u>\$ 7,195,000</u></u>	 <u><u>\$ 1,534,578</u></u>

2. Revenue Bonds

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
District parking facility revenue bonds of 1996	6%	\$ 1,492,000	\$ -	\$ 1,492,000
Water refunding revenue bonds of 2003	2% to 3.8%	1,110,000	(1,701)	1,111,701
Water pollution control improvements revenue bonds of 2002	4% to 5.15%	1,440,000	-	1,440,000
Water pollution control refunding revenue bonds of 2006	3.5% to 4.5%	25,260,000	910,794	24,349,206
Water pollution control revenue bonds of 2006	4% to 4.75%	26,075,000	192,858	25,882,142
Water pollution control revenue bonds of 2008	3.5% to 4%	<u>4,485,000</u>	<u>65,514</u>	<u>4,419,486</u>
Total		<u>\$ 59,862,000</u>	<u>\$ 1,167,465</u>	<u>\$ 58,694,535</u>

Revenue bonds debt service requirements to maturity at year end are as follows:

	Business-Type Activities	
	Principal	Interest
2011	\$ 2,690,000	\$ 2,483,661
2012	2,335,000	2,372,268
2013	2,085,000	2,279,657
2014	2,176,000	2,191,177
2015	2,283,000	2,094,920
2016-2020	12,188,000	8,948,601
2021-2025	27,535,000	5,720,335
2026-2030	<u>8,570,000</u>	<u>301,325</u>
Totals	<u>\$ 59,862,000</u>	<u>\$ 26,391,944</u>

3. Tax Increment Financing (TIF) Bonds

The Lafayette Redevelopment Authority (a blended component unit of the City, 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 conterminous with the City) to finance local public improvement and economic development projects.

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
2003 Redevelopment Authority refunding bonds	3.0% to 3.9%	\$ 3,075,000	\$ -	\$ 3,075,000
2003 Redevelopment Authority refunding bonds	1.2% to 3.75	245,000	-	245,000
2004 Redevelopment Authority lease rental bonds - Brady Lane	3.25% to 4.1%	4,930,000	66,999	4,863,001
2004 Renaissance Place Series A bonds	5.5%	1,940,000	-	1,940,000
2004 Renaissance Place Series B bonds	5.5%	770,000	-	770,000
2005 Redevelopment Authority refunding bonds - Greenbush	3.0% to 4.1%	7,575,000	(102,546)	7,677,546
2006 Redevelopment Authority revenue bonds - Lafayette Pavilion	6.0%	2,830,000	-	2,830,000
Economic Development lease rental refunded bonds series 2010 A	1.0% to 2.75%	975,000	8,141	966,859
Economic Development lease rental refunded bonds series 2010 B	2.0% to 4.0%	4,935,000	(72,457)	5,007,457
Economic Development lease rental refunded bonds series 2010 C	2.0% to 3.2%	9,180,000	66,563	9,113,437
Redevelopment Authority lease revenue refunding bond series 2010 A	2.0% to 3.5%	2,485,000	16,991	2,468,009
Redevelopment Authority lease revenue refunding bond series 2010 B	2.0% to 3.25%	3,005,000	6,401	2,998,599
Redevelopment Authority lease revenue refunding bond series 2010 C	2.0% to 4.0%	5,710,000	(92,844)	5,802,844
Total		<u>\$ 47,655,000</u>	<u>\$ (102,752)</u>	<u>\$ 47,757,752</u>

TIF bonds debt service requirements to maturity at year end are as follows:

	Governmental Activities	
	Principal	Interest
2011	\$ 3,105,000	\$ 1,385,478
2012	4,655,000	1,531,263
2013	4,800,000	1,401,450
2014	4,920,000	1,268,102
2015	5,310,000	1,119,626
2016-2020	18,555,000	3,105,803
2021-2025	5,085,000	816,533
2026-2030	1,225,000	29,665
Totals	<u>\$ 47,655,000</u>	<u>\$ 10,657,920</u>

4. Loans Payable

The Wastewater Utility has entered into three loans from the State Revolving Loan Fund. The funds are loaned to the Utility as planned construction costs are accrued up to the maximums allowed under the loans. The established maximums for the 2000, 2001 and 2009 loans are \$59,630,000, \$12,000,000 and \$1,509,000 respectively. At year end, the principal balances for the 2000, 2001 and 2009 loans were \$41,940,000, \$8,407,080 and \$991,550 respectively.

The City received a "Section 108" loan from HUD in the amount of \$3,300,000. The proceeds were deposited with a Trustee for subsequent loan to a private developer for the Lahr Project. The developer is currently making timely payments and the current principal balance of the loan at year end is \$2,790,000.

Annual debt service requirements to maturity for the loans are as follows:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Business-Type Activities	
	Principal	Interest
2011	\$ 2,251,550	\$ 1,864,556
2012	3,515,000	1,744,640
2013	3,642,000	1,622,329
2014	3,775,000	1,495,325
2015	3,912,000	1,363,332
2016-2020	23,669,000	4,477,988
2021-2025	12,279,080	750,990
2026-2030	1,085,000	40,689
Totals	\$ 54,128,630	\$ 13,359,849

5. Notes Payable

The City has entered into various notes. Annual debt service requirements to maturity for the notes, including interest, at year end are as follows:

	Governmental Activities	
	Principal	Interest
2011	\$ 199,653	\$ 7,525
2012	153,200	5,129
2013	65,114	2,608
Totals	\$ 417,967	\$ 15,262

6. Advance Refunding

The City 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 City's financial statements. The following outstanding bonds, at year end were considered defeased:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Amount
Primary government:	
1991 Redevelopment Authority lease rental -\$5,000,000	\$ 435,000
1991 Redevelopment Authority refunding issue -\$4,855,000	245,000
1991 Redevelopment Authority lease rental -\$9,365,000	5,015,000
1991 Redevelopment Authority lease rental -\$15,000,000	8,475,000
1991 Redevelopment Authority lease rental -\$5,665,000	3,225,000
1991 Redevelopment Authority lease rental -\$8,200,000	4,755,000
1991 Redevelopment Authority lease rental -\$3,360,000	2,520,000
2002 Sewage Works revenue bonds - \$30,000,000	23,935,000
1995 Redevelopment Authority lease rental- \$2,000,000	1,090,000
1996 Redevelopment Authority lease rental refunding- \$4,025,000	4,025,000
1997 Redevelopment Authority lease rental refunding- \$3,925,000	1,205,000
1998 Redevelopment Authority lease rental refunding- \$4,485,000	3,250,000
1999 Redevelopment Authority lease rental refunding- \$7,980,000	5,730,000
2001A Redevelopment Authority lease rental revenue- \$3,500,000	2,380,000
2001B Redevelopment Authority lease rental revenue- \$5,000,000	3,395,000
2002 Redevelopment Authority lease rental revenue- \$8,500,000	6,265,000

7. Defeased Debt

On November 23, 2010, the Lafayette Redevelopment Authority (Authority), a blended component unit of the City, issued three Lease Rental Refunding Bonds, Series 2010A, 2010B, and 2010C, totaling \$15,090,000. On the same date, the Authority also issued three Lease Rental Refunding Revenue Bonds, Series 2010A, 2010B, and 2010C, totaling \$11,200,000. These issues advance refunded the following issues: Lease Rental Bonds of 1995 and Lease Rental Refunding Bonds of 1996, 1997, 1998, and 1999 in the total amount of \$15,300,000 as well as Lease Rental Revenue Bonds 2001A, 2001B, and 2002 in the total amount of \$12,040,000. An irrevocable trust with an escrow agent was established to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and are no longer reported as a liability in the City's financial statements.

The Authority advance refunded the bonds to reduce its total debt service payments in the future by approximately \$2.279 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.932 million.

8. Changes in Long-Term Liabilities

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

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation	\$ 7,990,000	\$ -	\$ 795,000	\$ 7,195,000	\$ 825,000
Redevelopment agency	52,675,000	26,290,000	31,310,000	47,655,000	3,105,000
Less deferred amount on refunding	<u>(47,552)</u>	<u>(55,086)</u>	<u>115</u>	<u>(102,753)</u>	<u>-</u>
Total revenue bonds payable	60,712,552	26,345,086	32,104,885	54,952,753	3,930,000
Capital leases	539,368	675,396	235,846	978,918	410,064
Notes payable	4,498,795	-	4,080,828	417,967	260,196
Net pension obligations	<u>25,525,181</u>	<u>-</u>	<u>-</u>	<u>25,525,181</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 91,275,896</u>	<u>\$ 27,020,482</u>	<u>\$ 36,421,559</u>	<u>\$ 81,874,819</u>	<u>\$ 4,600,260</u>
Business-type activities:					
Revenue bonds payable:					
Water Utility	\$ 1,850,000	\$ -	\$ 740,000	\$ 1,110,000	\$ 770,000
Wastewater Utility	58,935,000	-	1,675,000	57,260,000	1,755,000
District parking facility	1,643,000	-	151,000	1,492,000	165,000
Less deferred amount on refunding	<u>1,216,484</u>	<u>-</u>	<u>48,826</u>	<u>1,167,658</u>	<u>-</u>
Total revenue bonds payable	61,211,516	-	2,517,174	58,694,342	2,690,000
Loans payable	55,172,244	702,386	1,746,000	54,128,630	3,379,000
Capital leases	<u>132,618</u>	<u>-</u>	<u>64,278</u>	<u>68,340</u>	<u>68,340</u>
Total business-type activities long-term liabilities	<u>\$ 116,516,378</u>	<u>\$ 702,386</u>	<u>\$ 4,327,452</u>	<u>\$ 112,891,312</u>	<u>\$ 6,137,340</u>

9. Contingent Receivable – Forgivable Loans

The City has contingent receivables resulting from rehabilitation and improvement loans made through various Community Development Block Grant and Home Investment Partnership Programs. The loans become receivable only if recipients do not meet occupancy or other requirements. Loan 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 2010:

Beginning balance, January 1	\$ 5,630,186
New loans	1,254,558
Amounts forgiven	(869,693)
Principle amount paid on loans	<u>(45,000)</u>
Ending balance, December 31	<u>\$ 5,970,051</u>

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Restricted Assets

The balances of restricted asset accounts at year end are as follows:

	Government Activities	Business-type Activities
Customer deposits	\$ -	\$ 117,460
Intergovernmental cash account	2,180,026	-
Revenue bond operations and maintenance account	-	3,155,773
 Total restricted assets	 \$ 2,180,026	 \$ 3,273,233

IV. Other Information

A. Risk Management

The City 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; medical benefits to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past 3 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:

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2009	2010
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	590,730	616,730
Claim payments	(590,730)	(616,730)
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.

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

	2009	2010
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	441,618	461,019
Claim payments	(441,618)	(461,019)
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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	2009	2010
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	106,619	65,305
Claim payments	(106,619)	(65,305)
Unpaid claims, end of fiscal year	\$ -	\$ -

B. Related Party Transactions

During the period in which financial statements are presented, the City had material transactions with Gary Henriott, Board of Works Member in relation to insurance coverage in the amount of \$497,627. No amount was due as of the balance sheet date.

C. Section 108 Loan

The City received a "Section 108" loan from HUD in the amount of \$3,300,000. The proceeds were deposited with a Trustee for subsequent loan to a private developer for the Lahr Project. The developer is responsible for the Loan Repayment. The City has a liability connected with the loan in the event of default by the developer. The City pledged as security for the loan future Community Development Block Grant and Program Income Funds in the event the developer would default. The liability is contingent upon the default of the developer and the amount would be the outstanding principal and interest at the time of the default. The developer is currently making timely payments and the current principal balance of the loan at year end, is \$2,790,000.

D. 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 City, 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.

At the end of the year, the sole series of bonds outstanding had an aggregate principal amount payable of \$1,650,000.

E. 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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2010, the Southeast Industrial TIF fund had \$1,451,124 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, 2010, the TIF County's South East fund had \$2,180,025 held for these capital projects.

F. Postemployment Benefits

In addition to the pension benefits described below, effective January 1, 2004, the primary government provides a portion of postemployment health insurance benefits, as authorized by IC 5-10-8, to all employees who retire from the primary government. 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 employee or spouse/dependent becoming covered by another group plan with no preexisting health clause, or if the employee or spouse/dependent becomes eligible for Medicare. Currently, thirty employees 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, 2010, expenditures of \$2,000 for police, \$7,800 for fire, and \$1,200 for water pollution control (wastewater) were recognized for postemployment benefits

G. 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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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
1 N. Capital, Suite 001
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.

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,

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension	Total Pension
Annual required contribution	\$ 494,765	\$ 135,661	\$ 167,582	\$ 798,008
Interest on net pension obligation	(16,237)	(4,452)	(5,500)	(26,189)
Adjustment to annual required contribution	18,504	5,074	6,267	29,845
Annual pension cost	497,032	136,283	168,349	801,664
Contributions made	478,022	131,071	161,911	771,003
Increase (decrease) in net pension obligation	19,010	5,212	6,439	30,661
Net pension obligation, beginning of year	(223,964)	(61,409)	(75,859)	(361,232)
Net pension obligation, end of year	<u>\$ (204,954)</u>	<u>\$ (56,197)</u>	<u>\$ (69,420)</u>	<u>\$ (330,571)</u>
Contribution rates:				
Government	0%	0%	0%	
Plan members	3%	6%	6%	
Actuarial valuation date	07-01-2009	07-01-2009	07-01-2009	
Actuarial cost method	Entry age normal cost	Entry age	Entry age	
Amortization method	Level dollar, closed amortization period	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	
Amortization period	30 years	30 years	30 years	
Amortization period (from date)	07-01-07	01-01-05	01-01-05	
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital	

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	7.00%	7.00%
Projected future salary increases:			
Total	4.00%	5.00%	5.00%
Cost-of-living adjustments	1.50%	0.00%	0.00%

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	06-30-2007	\$ 731,050	90.0%	\$ (426,645.00)
	06-30-2008	767,290	91.0%	(361,232)
	06-30-2009	801,664	96.0%	(33,051)
1925 Police Officers' Pension Plan	12-31-2007	1,428,500	130.0%	8,201,101
	12-31-2008	1,354,700	76.0%	8,483,805
	12-31-2009	1,557,300	140.0%	7,863,276
1937 Firefighters' Pension Plan	12-31-2007	2,732,600	70.0%	15,816,339
	12-31-2008	2,544,200	52.0%	17,041,376
	12-31-2009	2,243,300	144.0%	16,052,435

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2011, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	57	86
Terminated employees entitled to but not yet receiving benefits	0	0
Current active employees	0	3

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.

CITY OF LAFAYETTE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

Public Employees' Retirement Fund
1 N. Capital, Suite 001
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 19.5% 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 funded status of each plan as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
PERF	\$ 13,273,099	\$ 15,460,528	\$ 2,187,429	85.85%	\$ 13,628,273	16.05%
1925 Police Officers' Pension Plan	-	22,762,300	22,762,300	0.00%	-	No covered payroll
1937 Firefighters' Pension Plan	-	33,879,700	33,879,700	0.00%	-	No covered payroll

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

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)
7/1/2007	\$ 12,322,372	\$ 13,030,374	\$ (708,002)	95%	\$ 12,485,467	(6%)
7/1/2008	13,371,900	14,359,695	(987,795)	93%	12,768,128	(8%)
7/1/2009	13,273,099	15,460,528	(2,187,429)	86%	13,628,273	(16%)

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)
1/1/2004	\$ 953,193	\$ 22,607,400	\$(21,654,207)	4%	\$ 218,200	(9924%)
1/1/2005	135,770	22,318,500	(22,182,730)	1%	224,200	(9894%)
1/1/2006	(157,220)	22,696,700	(22,853,920)	(1%)	189,100	(12086%)
1/1/2007	861,582	21,078,300	(20,216,718)	4%	95,400	(21192%)
1/1/2008	985,499	20,166,600	(19,181,101)	5%	-	0%
1/1/2009	470,188	22,762,300	(22,292,112)	2%	-	0%

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)
1/1/2004	\$ 1,506,063	\$ 35,630,100	\$(34,124,037)	4%	\$ 610,800	(5587%)
1/1/2005	1,355,120	34,737,800	(33,382,680)	4%	582,700	(5729%)
1/1/2006	1,058,018	35,555,500	(34,497,482)	3%	614,300	(5616%)
1/1/2007	1,562,361	38,678,700	(37,116,339)	4%	572,700	(6481%)
1/1/2008	1,610,698	37,090,000	(35,479,302)	4%	248,200	(14295%)
1/1/2009	558,942	33,879,700	(33,320,758)	2%	-	0%

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
12/31/2004	\$ 2,636,900	29%	34%
12/31/2005	1,640,900	0%	33%
12/31/2006	1,676,800	4%	18%
12/31/2007	1,554,200	7%	49%
12/31/2008	1,483,400	104%	49%
12/31/2009	1,700,900	49%	70%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12/31/2004	\$ 4,220,700	38%	31%
12/31/2005	2,605,400	0%	29%
12/31/2006	2,703,200	5%	37%
12/31/2007	2,951,300	9%	42%
12/31/2008	2,792,500	91%	40%
12/31/2009	2,531,700	16%	50%

CITY OF LAFAYETTE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES - CASH BASIS
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
For The Year Ended December 31, 2010

	General Fund			Highway Fund (MVH & LRS)			Park Fund (all Park & Rec Funds)		
	Budgeted Amounts	Actual Budgetary Basis Amounts	Variance With Final Budget	Budgeted Amounts	Actual Budgetary Basis Amounts	Variance With Final Budget Favorable (Unfavorable)	Budgeted Amounts	Actual Budgetary Basis Amounts	Variance With Final Budget Favorable (Unfavorable)
Revenues:									
Taxes:									
Property Taxes	\$ 19,094,764	\$ 19,174,005	\$ 79,241	\$ 2,407,639	\$ 2,407,639	\$ -	\$ 3,755,917	\$ 3,755,917	\$ -
Licenses and permits	353,500	132,842	(220,658)	-	-	-	-	-	-
Intergovernmental	7,629,323	7,303,069	(326,254)	3,055,487	3,232,608	177,121	310,504	292,718	(17,786)
Charges for services	3,208,500	3,169,664	(38,836)	35,000	8,150	(26,850)	1,339,784	93,888	(1,245,896)
Fines and forfeits	120,000	119,657	(343)	-	-	-	-	-	-
Other	1,875,000	117,938	(1,757,062)	102,000	817,648	715,648	85,536	708,472	622,936
TOTAL REVENUES	32,281,087	30,017,175	(2,263,912)	5,600,126	6,466,045	865,919	5,491,741	4,850,995	(640,746)
Expenditures:									
Current:									
General government:									
Personal Services	1,396,735	1,296,827	99,908	-	-	-	-	-	-
Supplies	111,220	79,411	31,809	-	-	-	-	-	-
Other Srv & Chrgs	1,303,551	1,203,182	100,369	-	-	-	-	-	-
Capital Outlays	-	-	-	-	-	-	-	-	-
Total general government	2,811,506	2,579,420	232,086	-	-	-	-	-	-
Public safety:									
Personal Services	24,212,203	23,468,278	743,925	-	-	-	-	-	-
Supplies	809,962	765,291	44,671	-	-	-	-	-	-
Other Srv & Chrgs	372,300	303,873	68,427	-	-	-	-	-	-
Capital Outlays	1,000	39,724	(38,724)	-	-	-	-	-	-
Total public safety	25,395,465	24,577,166	818,299	-	-	-	-	-	-
Highways and streets:									
Personal Services	-	-	-	3,451,955	3,144,048	307,907	-	-	-
Supplies	-	-	-	900,700	869,370	31,330	-	-	-
Other Srv & Chrgs	-	-	-	1,055,435	941,670	113,765	-	-	-
Capital Outlays	-	-	-	187,000	104,580	82,420	-	-	-
Total highways and streets	-	-	-	5,595,090	5,059,668	535,422	-	-	-
Sanitation:									
Personal Services	1,524,500	1,363,177	161,323	-	-	-	-	-	-
Supplies	323,500	298,087	25,413	-	-	-	-	-	-
Other Srv & Chrgs	7,400	6,135	1,265	-	-	-	-	-	-
Capital Outlays	-	-	-	-	-	-	-	-	-
Total sanitation	1,855,400	1,667,399	188,001	-	-	-	-	-	-
Culture and recreation:									
Personal Services	-	-	-	-	-	-	3,046,135	2,876,376	169,759
Supplies	-	-	-	-	-	-	585,574	528,442	57,132
Other Srv & Chrgs	-	-	-	-	-	-	1,469,371	1,318,901	150,470
Capital Outlays	-	-	-	-	-	-	59,330	64,575	(5,245)
Total culture and recreation	-	-	-	-	-	-	5,160,410	4,788,294	372,116
Debt Service:									
Principal	-	-	-	-	-	-	655,000	655,000	-
Bond issuance costs	-	-	-	-	-	-	-	-	-
Total debt service	-	-	-	-	-	-	655,000	655,000	-
TOTAL EXPENDITURES	30,062,371	28,823,985	1,238,386	5,595,090	5,059,668	535,422	5,815,410	5,443,294	372,116
Net change in fund balances	2,218,716	1,193,190	(3,502,298)	5,036	1,406,377	330,497	(323,669)	(592,299)	(1,012,862)
Fund balances - beginning		2,512,455			655,643			3,834,492	
Fund balances - December 31		\$3,705,645			\$2,062,020			\$3,242,193	

CITY OF LAFAYETTE
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balances of the following funds were overdrawn at December 31, 2010: General (\$22,914); Redevelopment (\$61,605); DUI Taskforce (\$48,476); HOME (\$12,912); Community Development Block Grant (\$4,122); Weed and Seed Grant (\$1,256); Lafayette Re-enter Housing (\$6,644); Redevelopment Grants (\$354,808); and Economic Revitalization (\$17,991).

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)

SOCIAL SECURITY AND MEDICARE WAGES AS REPORTED ON FORMS W-2

Certain employee withholdings are allowed to be excluded from wages for federal income tax purposes. Two of the most notable "pre-tax" withholdings are medical insurance premiums/health savings account contributions and contributions to deferred compensation plans. However, these items are not allowed to be excluded from social security and medicare wages. For the first pay period of 2010, these items were used to reduce the social security and medicare wages of the applicable employees. Therefore, social security and medicare taxes withheld and matched by the City were calculated based on the reduced social security and medicare wages. The social security and medicare wages were reported on Forms W-2 in Boxes 3 and 5, respectively, net of the pre-tax withholdings. The City could be required to pay additional social security and medicare taxes as well as file corrected Forms W-2 as a result of this error. There is also the potential that interest and penalties could be assessed.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

NONCOMPLIANCE WITH SALARY ORDINANCE

Salaries and wages under the salary ordinance for 2010, Amended Ordinance No. 2009-21, were determined based on department designation, job title, and job classification, as well as by the 2010 Annual Wage Scale by Classification. The wage scale included four levels as follows: Initiation, Step 1 (one year), Step 2 (three years), and Maximum. We noted noncompliance with the salary ordinance in the payment of salaries and wages of five of the nine employees tested.

An Administrative Project Coordinator had held that position for two years and seven months as of January 1, 2010. Based on the 2010 Annual Wage Scale by Classification, the employee should have been paid at the Step 1 level but was, in fact, paid at the Step 2 level for the period January 1, 2010 through May 23, 2010. As a result, this employee was overpaid by \$692.72. We also noted that the pay raise effective May 24, 2010, allowed the employee to jump from the Step 1 wage scale to the Maximum wage scale, by-passing Step 2 (three years). This was allowed because there were no years of service in a position identified with the Maximum wage scale.

CITY OF LAFAYETTE
AUDIT RESULTS AND COMMENTS
(Continued)

An Accounting Manager in the Controller's Department had the job classification of PAT V. However, there was no such position (accounting manager) or job classification (PAT V) in the Controller's Department in the salary ordinance. There was an Accounts Payable Manager position in the Controller's Department that had a job classification of PAT IV. And, in fact, this employee was considered to be the Accounts Payable Manager and was paid at the PAT IV level.

An Accountant in the Controller's Office was promoted effective January 1, 2010, to the job classification of COMOT III. Based on the employee's years of service in a bookkeeping/accounting position, the appropriate pay scale would be Step 1 (one-three years). The pay scale for that Step per the salary ordinance was \$35,334. The employee was paid \$38,724.02 in regular wages and \$11,078.08 in overtime wages in 2010. The overtime wages were allowable under the salary ordinance and approved by the Controller. This employee was overpaid by \$3,390.02 in regular wages.

An employee tasked to the Redevelopment Department had the position (job title) of Accountant with a job classification of PAT II. The Redevelopment Department in the salary ordinance did not list Accountant as a proper position for the department nor was the job classification of PAT II an option under the Redevelopment Department. Accountant was a proper position for the Controller's Department; however, a PAT II job classification was not an option. An Accountant in the Controller's Department had the job classification of COMOT III. There was a COMOT III job classification (Administrative Coordinator position) listed under the Redevelopment Department as well. This individual was paid based on the Initiation pay scale for a PAT II classification. If this employee had been paid using the COMOT III classification, this employee would have been paid an additional \$620.60 in 2010.

An individual in the Human Resources Department was hired as a Human Resources Assistant with a job classification of PAT II. This employee received step rate increases on June 18, 2008, and June 18, 2010, with no changes to the department, position (job title), or job classification. However, the job classification of PAT II was not an option under the Human Resources Department in the 2010 salary ordinance. In fact, the approved salary ordinance for the Human Resources Department lists the position of Human Resources Assistant as a job classification of PAT III. Based on the salary ordinance, this employee was underpaid by \$7,255.48.

City officials stated that the salary ordinance would be amended.

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
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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, 2010. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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, 2010.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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 deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the City's management, the City Council, the Board of Public Works and Safety, 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

August 4, 2011

CITY OF LAFAYETTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

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 Grants Cluster			
Community Development Block Grants/ Entitlement Grants	14.218	B07-MC-18008 B08-MC-18008 B09-MC-18008 B10-MC-18008	\$ 30,000 3,331 493,272 <u>130,331</u>
Total for program			<u>656,934</u>
ARRA - Community Development Block Grants ARRA Entitlement Grants	14.253	B-09-MY-18-0008	<u>161,505</u>
Total for program			<u>161,505</u>
Total for cluster			<u>818,439</u>
Direct Grant			
HOME Investment Partnerships Program	14.239	M04-DC-180212 M05-DC-180212 M07-DC-180212 M08-DC-180212 M09-DC-180212	95,603 58,840 193,739 514,095 441,814
Pass-Through Indiana Housing and Community Development Authority HOME Investment Partnerships Program		TB-008-001	<u>146,213</u>
Total for program			<u>1,450,304</u>
Community Development Block Grant-State Administered Small Cities Program Cluster	14.228	NSP1-009-015	<u>652,771</u>
Shelter Plus Care	14.238	SC-008-006	<u>126,530</u>
Total for federal grantor agency			<u>3,048,044</u>
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Pass-Through Indiana Department of Natural Resources Save America's Treasurers	15.929	18-08-AP-4011	<u>2,625</u>
Total for federal grantor agency			<u>2,625</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Edward Byrne Memorial Justice Assistance Grant Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1007 2009-DJ-BX-0049 2010-DJ-BX-0694	49,805 9,781 <u>14,257</u>
Total for program			<u>73,843</u>
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	2009-SB-B9-1634	<u>174,597</u>
Total for program			<u>174,597</u>
Total for cluster			<u>248,440</u>

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

CITY OF LAFAYETTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010
(Continued)

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 JUSTICE (continued)</u>			
Direct Grant			
Community Capacity Development Office	16.595	2009-WS-QX-0132	<u>81,089</u>
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009-RK-WX-0353	<u>226,874</u>
Total for federal grantor agency			<u>556,403</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
Alcohol Impaired Driving Countermeasures Incentive Grant 1	20.601	K8-2011-03-02-07	1,210
		K4-2010-03-02-09	74,262
		K8-2011-03-03-29	13,181
		K8-2010-03-03-29	19,561
		K4-2010-08-01-20	39,998
		PT-11-04-04-30	11,019
		PT-10-04-04-31	<u>48,098</u>
Total for program			<u>207,329</u>
Total for federal grantor agency			<u>207,329</u>
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Protection			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	2W-00E73001-0	<u>378,552</u>
Total for federal grantor agency			<u>378,552</u>
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Pass-Through Tippecanoe County			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	FY 2010	<u>55,977</u>
Total for federal grantor agency			<u>55,977</u>
Total federal awards expended			<u>\$ 4,248,930</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 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lafayette and is presented in conformity with accounting principles generally accepted in the United States of America which is the basis of accounting used in the presentation of the financial statements. 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 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2010:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/ Entitlement Grants	14.218	\$304,665
HOME Investment Partnerships Program	14.239	180,138

CITY OF LAFAYETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiency identified?	no
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	no
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
14.239	Community Development Block Grant- Entitlement Grants Cluster HOME Investment Partnerships Program
16.710	Edward Byrne Memorial Justice Assistance Grant Program Cluster
66.458	ARRA - Public Safety Partnership and Community Policing Grants ARRA - Capitalization Grants for Clean Water State Revolving Funds

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 CITYNAME
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF LAFAYETTE
EXIT CONFERENCE

The contents of this report were discussed on August 4, 2011, with Tony Roswarski, Mayor; Ronald Campbell, President of the Common Council; Cindy Murray, Board of Public Works and Safety member; J. Michael Jones, Controller; Terry Schmitt, Deputy Controller; and Jacque Chosnek, City Attorney. The official response has been made a part of this report and may be found on pages 58 and 59.



CITY OF
LAFAYETTE
OFFICE OF CONTROLLER

August 5, 2011

Mr. Bruce Hartman, CPA
Chief Examiner
State Board of Accounts
302 W. Washington Street Rm E 418
Indianapolis, IN 46204-2765

RE: Official Audit Response

Dear Mr. Hartman:

As last year the City of Lafayette wanted to write a brief response to the 2010 Audit results and comments.

The first area I wish to address is the GASB 45 ruling that requires the City to have an actuarial study done on Post Employment Benefits. We do understand that the note is required as the study has not been performed but felt compelled to explain why. Like many municipalities the City of Lafayette has experienced constricted revenue flows and shrinking budgets. These factors coupled with the high cost of the estimates of the study, \$20,000, led the City to reserve those funds for services.

The next item is the overdrawn balances. In 2010 as in 2009 and 2008 the City of Lafayette received its tax draw late. For 2010 the balance was received in February of 2011. We did not have an indication that the payment would be late until we could no longer take action to avert any negative balance amount. This resulted in a discrepancy in the General Fund and the Redevelopment Fund. The remaining funds that show a negative balance are Federal Grant reimbursement funds and the negative amounts are the result of a timing difference. The City makes every attempt to keep the timing to a minimum but it is not always possible to match the payment and receipt date.

The next area is the Social Security and Medicare wages. Previous to 2010 the City's payroll software had over 500 job classifications with many variations on pre or post tax withholdings. The City undertook a project to streamline those classes and reduced the number to approximately 120. When setting up the system a checkbox was not properly activated and the result was the first payroll, on 1/09/10, had some of the pretax deductions withheld improperly.

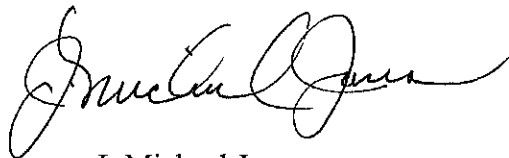
The last area deals with noncompliance with the Salary Ordinance. This particular comment involves two sets of circumstances which have led to its inclusion. Each employee is assigned a position in a 33 x 4 matrix and a job designation, such as a PAT II which is a Professional and Technical employee at the second level, is assigned. The employee also signs a Condition of Employment or COE, which shows the job designation and bi-weekly salary amount to be paid. We have two employees who are PAT II. However, there is a typo in the job listing ordinance which shows the designation of one as a PAT III. The other employee is in a department that had a job change but unfortunately a Scribner's error in the ordinance listed the old job designation. In both cases the COE's that the employees signed were correct. A third employee's position was correctly listed in the salary ordinance as a PAT IV and has been since at least 2001. The COE that this employee signed in 2005 had the correct salary amount listed on it but in the job designation line a typo was made and listed the designation as a PAT V.

The second set of circumstances in this section deals with 2 employees who in addition to their duties of the job for which they were hired, have taken on the duties of 2 employees unfortunately furloughed due to the loss of revenue. In the aforementioned job matrix grid the opportunity to advance people inside of their job classification due to outstanding skill demonstration or educational credentials is explained in a Resolution passed in 1998. In fact during the explanation of this comment there was confusion concerning the language of the Resolution. The City, obviously, made an interpretation of the resolution differently than the Board of Accounts. There was no attempt to overpay any employee or circumvent any ordinance and in fact the City has documented net savings of over \$112,000 to date and all job functions are still being performed.

It is unfortunate that these errors occurred. It goes without saying that they should not have happened. However with approximately 570 full time employees and combined budgets including Utilities and TIF districts approaching \$100 million errors are sometimes impossible to avoid. The City Council will undertake legislative actions to correct the errors in the Ordinance as well as clearing up any ambiguity in the 1998 Resolution.

Thank you for the opportunity to respond to the comments.

Very truly yours,

A handwritten signature in black ink, appearing to read "J. Michael Jones", written in a cursive style.

J. Michael Jones
Controller