

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

FINANCIAL STATEMENTS AND  
FEDERAL SINGLE AUDIT REPORT

CITY OF LAFAYETTE  
TIPPECANOE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
10/21/2013



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OFFICIALS

| <u>Office</u>                             | <u>Official</u>                   | <u>Term</u>                                  |
|---|-----------------------------------|--|
| Controller                                | J. Michael Jones                  | 01-01-12 to 12-31-13                         |
| Mayor                                     | Tony Roswarski                    | 01-01-08 to 12-31-15                         |
| President of the Board<br>of Public Works | Gary Henriott                     | 01-01-12 to 12-31-13                         |
| President of the<br>Common Council        | Steve Meyer<br>Ronald B. Campbell | 01-01-12 to 12-31-12<br>01-01-13 to 12-31-13 |



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INDEPENDENT AUDITOR'S REPORT

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

***Report on the Financial Statements***

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

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

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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that 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, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that Government Accounting Standards Board requires to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***City's Response to Audit Results and Comments***

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.

***Other Reporting Required by Government Auditing Standards***

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



Bruce Hartman  
State Examiner

September 16, 2013



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 16, 2013.

***Internal Control Over Financial Reporting***

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in item 2012-1 of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

***Compliance and Other Matters***

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

INDEPENDENT AUDITOR'S 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)

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***City's Response to Findings***

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

***Purpose of This Report***

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



Bruce Hartman  
State Examiner

September 16, 2013

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## FINANCIAL STATEMENTS

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

**City of Lafayette**  
**Statement of Net Position**  
**December 31, 2012**

|  | Primary Government         |                             |                       |
|--|----------------------------|-----------------------------|-----------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Total                 |
| <b>ASSETS:</b>                                   |                            |                             |                       |
| Cash and cash equivalents                        | \$ 41,751,338              | \$ 27,109,706               | \$ 68,861,044         |
| Cash with fiscal agent                           | 6,344,116                  | -                           | 6,344,116             |
| Receivable (net of allowance for uncollectibles) |                            |                             |                       |
| Loans  | 645,487                    | 2,617,500                   | 3,262,987             |
| Taxes  | 2,428,677                  | -                           | 2,428,677             |
| Accounts   | 526,830                    | 2,737,112                   | 3,263,942             |
| Intergovernmental                                | 2,767,517                  | 3,931                       | 2,771,448             |
| Interest   | 117,775                    | -                           | 117,775               |
| Internal balances                                | 88,311                     | (88,311)                    | -                     |
| Inventories                                      | 456,836                    | 1,010,206                   | 1,467,042             |
| Prepaid expense                                  | 19,040                     | 330                         | 19,370                |
| Deferred expense                                 | 799,600                    | 200,400                     | 1,000,000             |
| Deferred debits                                  | 1,489,041                  | 1,707,713                   | 3,196,754             |
| Capital assets:                                  |                            |                             |                       |
| Land, improvements and construction in progress  | 34,315,698                 | 11,965,326                  | 46,281,024            |
| Other capital assets, net of depreciation        | 165,447,859                | 200,054,273                 | 365,502,132           |
| Restricted assets:                               |                            |                             |                       |
| Cash and cash equivalents                        | 1,165,914                  | 5,269,490                   | 6,435,404             |
| <b>Total Assets</b>                              | <b>258,364,039</b>         | <b>252,587,676</b>          | <b>510,951,715</b>    |
| <b>LIABILITIES:</b>                              |                            |                             |                       |
| Accounts payable                                 | 2,075,061                  | 1,212,066                   | 3,287,127             |
| Accrued payroll and withholdings payable         | 560,380                    | 148,349                     | 708,729               |
| Intergovernmental payable                        | 1,155,915                  | -                           | 1,155,915             |
| Taxes payable                                    | -                          | 26,760                      | 26,760                |
| Accrued interest payable                         | 734,061                    | 1,939,663                   | 2,673,724             |
| Deposit for extension refund contracts           | -                          | 5,700                       | 5,700                 |
| Deferred revenue                                 | 260                        | -                           | 260                   |
| Performance deposits payable                     | 117,861                    | 191,517                     | 309,378               |
| Payable from restricted assets:                  |                            |                             |                       |
| Customer deposits                                | 30,365                     | 129,427                     | 159,792               |
| Noncurrent liabilities:                          |                            |                             |                       |
| Due within one year                              |                            |                             |                       |
| General obligation bonds payable                 | 925,000                    | -                           | 925,000               |
| Revenue bonds payable                            | 5,220,000                  | 1,890,000                   | 7,110,000             |
| Notes and loans payable                          | 424,744                    | 3,642,000                   | 4,066,744             |
| Capital Lease obligations                        | 332,812                    | -                           | 332,812               |
| Due in more than one year                        |                            |                             |                       |
| General obligation bonds payable                 | 4,957,117                  | -                           | 4,957,117             |
| Revenue bonds payable                            | 36,162,317                 | 50,785,894                  | 86,948,211            |
| Notes and loans payable                          | 867,414                    | 44,720,080                  | 45,587,494            |
| Capital Lease obligations                        | 512,175                    | -                           | 512,175               |
| Other postemployment benefit obligation          | 225,295                    | 450,589                     | 675,884               |
| Net pension obligation                           | 22,737,396                 | 198,968                     | 22,936,364            |
| <b>Total Liabilities</b>                         | <b>77,038,173</b>          | <b>105,341,013</b>          | <b>182,379,186</b>    |
| <b>NET POSITION:</b>                             |                            |                             |                       |
| Net Investment in capital assets                 | 150,361,978                | 110,981,625                 | 261,343,603           |
| Restricted                                       | 1,165,914                  | 5,269,490                   | 6,435,404             |
| Unrestricted                                     | 29,797,974                 | 30,995,548                  | 60,793,522            |
| <b>Total Net Position</b>                        | <b>\$ 181,325,866</b>      | <b>\$ 147,246,663</b>       | <b>\$ 328,572,529</b> |

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, 2012**

| Functions/Programs                             | Net (Expenses) Revenues and Changes in Net Position |                      |                                    |                                  |                         |                          |                        |
|--|---|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|------------------------|
|  | Program Revenues                                    |                      |                                    |                                  | Primary Government      |                          |                        |
|  | Expenses  | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total                  |
| <b>Primary government</b>                      |   |                      |                                    |                                  |                         |                          |                        |
| Governmental activities                        |   |                      |                                    |                                  |                         |                          |                        |
| General Government                             | \$ 5,613,047  | \$ 451,708           | \$ 1,199,221                       | \$ -                             | \$ (3,962,118)          | \$ -                     | \$ (3,962,118)         |
| Public Safety                                  | 26,532,846  | 120,088              | 810,244                            | -                                | (25,602,514)            | -                        | (25,602,514)           |
| Highways and Streets                           | 7,708,735   | 2,341,069            | -                                  | 27,900,000                       | 22,532,334              | -                        | 22,532,334             |
| Sanitation                                     | 2,022,147   | -                    | -                                  | -                                | (2,022,147)             | -                        | (2,022,147)            |
| Culture and Recreation                         | 5,685,888   | 1,444,534            | 2,748                              | 3,900                            | (4,234,706)             | -                        | (4,234,706)            |
| Economic Development                           | 8,378,482   | 21,722               | 3,395,164                          | 6,000                            | (4,955,596)             | -                        | (4,955,596)            |
| Total governmental activities                  | <u>55,941,145</u>                                   | <u>4,379,121</u>     | <u>5,407,377</u>                   | <u>27,909,900</u>                | <u>(18,244,747)</u>     | <u>-</u>                 | <u>(18,244,747)</u>    |
| Business-type activities                       |   |                      |                                    |                                  |                         |                          |                        |
| Water Utility                                  | 7,435,934   | 7,986,406            | -                                  | -                                | -                       | 550,472                  | 550,472                |
| Wastewater Utility                             | 20,916,575  | 25,299,461           | -                                  | -                                | -                       | 4,382,886                | 4,382,886              |
| Parking Garage                                 | 155,580   | 76,682               | -                                  | -                                | -                       | (78,898)                 | (78,898)               |
| Section 108                                    | 80,595  | 74,801               | -                                  | -                                | -                       | (5,794)                  | (5,794)                |
| Total business-type activities                 | <u>28,588,684</u>                                   | <u>33,437,350</u>    | <u>-</u>                           | <u>-</u>                         | <u>-</u>                | <u>4,848,666</u>         | <u>4,848,666</u>       |
| Total primary government                       | <u>\$ 84,529,829</u>                                | <u>\$ 37,816,471</u> | <u>\$ 5,407,377</u>                | <u>\$ 27,909,900</u>             | <u>\$ (18,244,747)</u>  | <u>\$ 4,848,666</u>      | <u>\$ (13,396,081)</u> |
| General Revenues:                              |   |                      |                                    |                                  |                         |                          |                        |
| Property taxes                                 |   |                      |                                    |                                  | 36,355,229              | -                        | 36,355,229             |
| Intergovernmental Revenues                     |   |                      |                                    |                                  | 15,174,836              | -                        | 15,174,836             |
| Gain (loss) on sale of assets                  |   |                      |                                    |                                  | 139,737                 | 8,500                    | 148,237                |
| Other revenues                                 |   |                      |                                    |                                  | 4,218,808               | 4,962                    | 4,223,770              |
| Unrestricted investment earnings               |   |                      |                                    |                                  | 35,782                  | 73,419                   | 109,201                |
| Contributed Capital                            |   |                      |                                    |                                  | -                       | 1,388,516                | 1,388,516              |
| Transfers                                      |   |                      |                                    |                                  | (2,688,353)             | 2,688,353                | -                      |
| Total general revenues and separate line items |   |                      |                                    |                                  | <u>53,236,039</u>       | <u>4,163,750</u>         | <u>57,399,789</u>      |
| Changes in net position                        |   |                      |                                    |                                  | 34,991,292              | 9,012,416                | 44,003,708             |
| Net position - beginning                       |   |                      |                                    |                                  | <u>146,334,574</u>      | <u>138,234,247</u>       | <u>284,568,821</u>     |
| Net position - ending                          |   |                      |                                    |                                  | <u>\$ 181,325,866</u>   | <u>\$ 147,246,663</u>    | <u>\$ 328,572,529</u>  |

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

**City of Lafayette  
Balance Sheet -  
Governmental Funds  
December 31, 2012**

|   | General             | Motor Vehicle       | Parks and<br>Recreation | Thoroughfares        | EDIT                | TIF Alloc<br>Central<br>Cnsldatd | Other                | Total                |
|---|---------------------|---------------------|-------------------------|----------------------|---------------------|----------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                     |                     |                     |                         |                      |                     |                                  |                      |                      |
| Cash and cash equivalents                         | \$ 186,732          | \$ 2,265,133        | \$ 453,366              | \$ 20,227,552        | \$ 1,277,572        | \$ 1,325,425                     | \$ 15,767,800        | \$ 41,503,580        |
| Cash with Fiscal Agents                           | -                   | -                   | 37,794                  | -                    | -                   | -                                | 6,306,322            | 6,344,116            |
| Receivables (Net of allowance for uncollectibles) |                     |                     |                         |                      |                     |                                  |                      |                      |
| Taxes   | 1,308,844           | 150,579             | 226,468                 | -                    | -                   | 113,732                          | 629,054              | 2,428,677            |
| Intergovernmental                                 | 1,387,430           | 389,262             | 35,137                  | -                    | 867,652             | -                                | 88,036               | 2,767,517            |
| Loans   | -                   | -                   | -                       | -                    | -                   | 32,195                           | 613,292              | 645,487              |
| Accounts  | 3,654               | 4,719               | 2,371                   | -                    | -                   | -                                | 516,086              | 526,830              |
| Interest  | -                   | -                   | -                       | -                    | -                   | -                                | 117,775              | 117,775              |
| Interfund services provided and used              | 19                  | 46                  | 263                     | -                    | -                   | -                                | 46,314               | 46,642               |
| Restricted cash                                   | -                   | -                   | 10,000                  | -                    | -                   | -                                | 1,155,914            | 1,165,914            |
| <b>Total Assets</b>                               | <b>\$ 2,886,679</b> | <b>\$ 2,809,739</b> | <b>\$ 765,399</b>       | <b>\$ 20,227,552</b> | <b>\$ 2,145,224</b> | <b>\$ 1,471,352</b>              | <b>\$ 25,240,593</b> | <b>\$ 55,546,538</b> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                     |                     |                         |                      |                     |                                  |                      |                      |
| <b>Liabilities</b>                                |                     |                     |                         |                      |                     |                                  |                      |                      |
| Accounts payable                                  | \$ 294,600          | \$ 588,637          | \$ 58,179               | \$ 3,060             | \$ 129,351          | \$ 51,004                        | \$ 773,416           | \$ 1,898,247         |
| Accrued payroll and withholding payable           | 451,155             | 58,874              | 39,596                  | -                    | -                   | -                                | 10,755               | 560,380              |
| Intergovernmental payable                         | -                   | -                   | -                       | -                    | -                   | -                                | 1,155,914            | 1,155,914            |
| Accrued interest payable                          | -                   | -                   | 820                     | -                    | 14,187              | 7,225                            | 711,829              | 734,061              |
| Deferred revenue                                  | -                   | -                   | 260                     | -                    | -                   | -                                | -                    | 260                  |
| Deferred revenue - unavailable                    | 1,516,509           | 173,942             | 261,605                 | -                    | 808,478             | 113,732                          | 654,811              | 3,529,077            |
| Performance deposits available                    | -                   | 80,990              | -                       | 36,871               | -                   | -                                | -                    | 117,861              |
| Customer deposits                                 | 9,600               | -                   | 20,765                  | -                    | -                   | -                                | -                    | 30,365               |
| Interfund payable                                 |                     |                     |                         |                      |                     |                                  |                      |                      |
| Interfund services provided and used              | 245,947             | 96,044              | 17,121                  | -                    | 426                 | -                                | 46,457               | 405,995              |
| Total Liabilities                                 | 2,517,811           | 998,487             | 398,346                 | 39,931               | 952,442             | 171,961                          | 3,353,182            | 8,432,160            |
| <b>Fund Balances</b>                              |                     |                     |                         |                      |                     |                                  |                      |                      |
| Restricted  | -                   | 1,811,252           | 367,053                 | 20,187,621           | -                   | -                                | 14,726,734           | 37,092,660           |
| Committed   | -                   | -                   | -                       | -                    | -                   | 1,299,391                        | 4,060,186            | 5,359,577            |
| Assigned  | -                   | -                   | -                       | -                    | 1,192,782           | -                                | 3,100,491            | 4,293,273            |
| Unassigned  | 368,868             | -                   | -                       | -                    | -                   | -                                | -                    | 368,868              |
| Total Fund Balances                               | 368,868             | 1,811,252           | 367,053                 | 20,187,621           | 1,192,782           | 1,299,391                        | 21,887,411           | 47,114,378           |
| <b>Total Liabilities and Fund Balances</b>        | <b>\$ 2,886,679</b> | <b>\$ 2,809,739</b> | <b>\$ 765,399</b>       | <b>\$ 20,227,552</b> | <b>\$ 2,145,224</b> | <b>\$ 1,471,352</b>              | <b>\$ 25,240,593</b> |                      |

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

|   |              |
|---|--------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.   | 199,753,479  |
| Current assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.   | 1,027,067    |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.  | 1,489,041    |
| City and state collections that are not available until the next calendar year are recognized as revenue in government-wide funds but are deferred in the fund balance.   | 3,529,077    |
| 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 Position. | 777,096      |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.  | (49,401,581) |
| Net pension obligation and other postemployment benefit obligation are not due and payable in the current period and, therefore, are not reported in the funds.   | (22,962,691) |

**Net Position of Governmental Activities**

**\$ 181,325,866**

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

**City of Lafayette**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Governmental Funds**  
**For the Year Ended December 31, 2012**

|  | General           | Motor<br>Vehicle    | Parks and<br>Recreation | Thoroughfares        | EDIT                | TIF Alloc<br>Central<br>Cnsldatd | Other                | Total                |
|--|-------------------|---------------------|-------------------------|----------------------|---------------------|----------------------------------|----------------------|----------------------|
| <b>REVENUES</b>  |                   |                     |                         |                      |                     |                                  |                      |                      |
| General property taxes                                       | \$ 19,182,701     | \$ 2,206,920        | \$ 3,319,167            | \$ -                 | \$ -                | \$ 1,666,880                     | \$ 9,261,837         | \$ 35,637,505        |
| Licenses and permits   | 185,238           | -                   | -                       | -                    | -                   | -                                | 37,570               | 222,808              |
| Intergovernmental  | 8,532,684         | 3,336,675           | 277,827                 | -                    | 5,094,109           | -                                | 2,143,622            | 19,384,917           |
| Charges for services   | 398,740           | 27,251              | 1,422,420               | -                    | -                   | -                                | 98,485               | 1,946,896            |
| Fines and forfeits   | 134,293           | -                   | -                       | -                    | -                   | -                                | 29,633               | 163,926              |
| Other  | 3,103,496         | 79,676              | 130,541                 | -                    | 267                 | 7,118                            | 9,364,335            | 12,685,433           |
| Total Revenues   | <u>31,537,152</u> | <u>5,650,522</u>    | <u>5,149,955</u>        | <u>-</u>             | <u>5,094,376</u>    | <u>1,673,998</u>                 | <u>20,935,482</u>    | <u>70,041,485</u>    |
| <b>EXPENDITURES</b>  |                   |                     |                         |                      |                     |                                  |                      |                      |
| Current:   |                   |                     |                         |                      |                     |                                  |                      |                      |
| General Government   | 3,040,066         | -                   | -                       | -                    | -                   | -                                | 1,239,986            | 4,280,052            |
| Public Safety  | 25,669,390        | -                   | -                       | -                    | -                   | -                                | 770,462              | 26,439,852           |
| Highways and Streets   | -                 | 4,616,737           | -                       | -                    | -                   | -                                | -                    | 4,616,737            |
| Sanitation   | 1,972,727         | -                   | -                       | -                    | -                   | -                                | -                    | 1,972,727            |
| Culture and Recreation                                       | -                 | -                   | 5,537,324               | -                    | -                   | -                                | -                    | 5,537,324            |
| Economic Development   | -                 | -                   | -                       | -                    | 5,156,209           | 927,349                          | 13,059,042           | 19,142,600           |
| Capital Outlay:  |                   |                     |                         |                      |                     |                                  |                      |                      |
| General Government   | 2,379             | -                   | -                       | -                    | -                   | -                                | -                    | 2,379                |
| Public Safety  | 54,736            | -                   | -                       | -                    | -                   | -                                | 106,084              | 160,820              |
| Highways and Streets   | -                 | 834,184             | -                       | 812,379              | -                   | -                                | -                    | 1,646,563            |
| Sanitation   | -                 | -                   | -                       | -                    | -                   | -                                | -                    | -                    |
| Culture and Recreation                                       | -                 | -                   | 99,812                  | -                    | -                   | -                                | -                    | 99,812               |
| Economic Development   | -                 | -                   | -                       | -                    | 912,852             | 518,725                          | 2,653,037            | 4,084,614            |
| Total Expenditures   | <u>30,739,298</u> | <u>5,450,921</u>    | <u>5,637,136</u>        | <u>812,379</u>       | <u>6,069,061</u>    | <u>1,446,074</u>                 | <u>17,828,611</u>    | <u>67,983,480</u>    |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>797,854</u>    | <u>199,601</u>      | <u>(487,181)</u>        | <u>(812,379)</u>     | <u>(974,685)</u>    | <u>227,924</u>                   | <u>3,106,871</u>     | <u>2,058,005</u>     |
| <b>Other Financing Sources (Uses)</b>                        |                   |                     |                         |                      |                     |                                  |                      |                      |
| Loan proceeds  | -                 | -                   | -                       | -                    | 829,545             | -                                | 450,000              | 1,279,545            |
| Proceeds of refunding debt                                   | -                 | -                   | 5,882,117               | -                    | -                   | 3,831,300                        | -                    | 9,713,417            |
| Payment to refunded debt escrow agent                        | -                 | -                   | (5,718,393)             | -                    | -                   | (2,650,516)                      | -                    | (8,368,909)          |
| Contribution in aid of construction                          | -                 | -                   | -                       | 21,000,000           | -                   | -                                | 6,000                | 21,006,000           |
| Transfer in  | 81,486            | 10,935              | 4,861                   | -                    | 338,893             | -                                | -                    | 436,175              |
| Transfer out   | -                 | -                   | -                       | -                    | -                   | (1,307,597)                      | (340,188)            | (1,647,785)          |
| Total Other Financing Sources (Uses)                         | <u>81,486</u>     | <u>10,935</u>       | <u>168,585</u>          | <u>21,000,000</u>    | <u>1,168,438</u>    | <u>(126,813)</u>                 | <u>115,812</u>       | <u>22,418,443</u>    |
| Net changes in fund balances                                 | <u>879,340</u>    | <u>210,536</u>      | <u>(318,596)</u>        | <u>20,187,621</u>    | <u>193,753</u>      | <u>101,111</u>                   | <u>3,222,683</u>     | <u>24,476,448</u>    |
| Fund balances - beginning                                    | <u>(510,472)</u>  | <u>1,600,716</u>    | <u>685,649</u>          | <u>-</u>             | <u>999,029</u>      | <u>1,198,280</u>                 | <u>18,664,728</u>    | <u>22,637,930</u>    |
| Fund balances - ending                                       | <u>\$ 368,868</u> | <u>\$ 1,811,252</u> | <u>\$ 367,053</u>       | <u>\$ 20,187,621</u> | <u>\$ 1,192,782</u> | <u>\$ 1,299,391</u>              | <u>\$ 21,887,411</u> | <u>\$ 47,114,378</u> |

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, 2012

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).  | \$ 24,476,448        |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.  | 662,945              |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.   | 6,816,444            |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.   | 886,858              |
| The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 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. | 3,256,409            |
| Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.  | 267,391              |
| 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.  | 72,468               |
| Transfers of noncurrent items between governmental and enterprise or fiduciary funds provide financial resources to net position, but do not have any effect on governmental funds. This amount is the net effect of those transfers.  | (1,355,647)          |
| 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>(92,024)</u>      |
| Change in net position of governmental activities (Statement of Activities)  | <u>\$ 34,991,292</u> |

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

CITY OF LAFAYETTE  
STATEMENT OF NET POSITION -  
PROPRIETARY FUNDS  
December 31, 2012

| Assets  | Business-Type Activities - Enterprise Funds |                       |                     |                       | Internal Service Fund |
|---|---|-----------------------|---------------------|-----------------------|-----------------------|
|   | Water Utility                               | Wastewater Utility    | Other Enterprise    | Total                 |                       |
| <b>Current assets:</b>  |   |                       |                     |                       |                       |
| Cash and cash equivalents   | \$ 4,192,494                                | \$ 22,848,130         | \$ 69,082           | \$ 27,109,706         | \$ 247,758            |
| Accounts receivable (net of allowance)                                  | 311,760                                     | 2,425,352             | -                   | 2,737,112             | -                     |
| Loans receivable  | -   | -                     | 2,617,500           | 2,617,500             | -                     |
| Intergovernmental receivable  | 3,931                                       | -                     | -                   | 3,931                 | -                     |
| Interfund receivable :  |   |                       |                     |                       |                       |
| Interfund services provided and used                                    | -   | -                     | -                   | -                     | 447,664               |
| Inventories   | 266,541                                     | 743,665               | -                   | 1,010,206             | 253,448               |
| <b>Total current assets</b>   | <b>4,774,726</b>                            | <b>26,017,147</b>     | <b>2,686,582</b>    | <b>33,478,455</b>     | <b>948,870</b>        |
| <b>Noncurrent assets:</b>   |   |                       |                     |                       |                       |
| <b>Restricted cash, cash equivalents and investments:</b>               |   |                       |                     |                       |                       |
| Customer deposits   | 129,427                                     | -                     | -                   | 129,427               | -                     |
| Revenue bond covenant accounts  | -   | 5,050,276             | 89,787              | 5,140,063             | -                     |
| <b>Total restricted assets</b>  | <b>129,427</b>                              | <b>5,050,276</b>      | <b>89,787</b>       | <b>5,269,490</b>      | <b>-</b>              |
| Deferred charges  | 95,200                                      | 1,813,243             | -                   | 1,908,443             | -                     |
| <b>Capital assets:</b>  |   |                       |                     |                       |                       |
| <b>Land, improvements to land and construction in progress</b>          |   |                       |                     |                       |                       |
|   | 2,191,339                                   | 9,090,006             | 683,981             | 11,965,326            | -                     |
| Other capital assets (net of accumulated depreciation)                  | 32,933,160                                  | 164,703,461           | 2,417,652           | 200,054,273           | 5,042                 |
| <b>Total capital assets</b>   | <b>35,124,499</b>                           | <b>173,793,467</b>    | <b>3,101,633</b>    | <b>212,019,599</b>    | <b>5,042</b>          |
| <b>Total noncurrent assets</b>  | <b>35,349,126</b>                           | <b>180,656,986</b>    | <b>3,191,420</b>    | <b>219,197,532</b>    | <b>5,042</b>          |
| <b>Total assets</b>   | <b>40,123,852</b>                           | <b>206,674,133</b>    | <b>5,878,002</b>    | <b>252,675,987</b>    | <b>953,912</b>        |
| <b>Liabilities</b>  |   |                       |                     |                       |                       |
| <b>Current liabilities:</b>   |   |                       |                     |                       |                       |
| Accounts payable  | 127,581                                     | 1,084,421             | 64                  | 1,212,066             | 176,815               |
| Interfund services provided and used                                    | 28,189                                      | 60,122                | -                   | 88,311                | -                     |
| Accrued wages payable   | 55,802                                      | 92,547                | -                   | 148,349               | -                     |
| Other payable   | 46,607                                      | 177,370               | -                   | 223,977               | -                     |
| <b>Current liabilities payable from restricted assets:</b>              |   |                       |                     |                       |                       |
| Customer deposits   | 129,427                                     | -                     | -                   | 129,427               | -                     |
| Revenue bonds payable   | -   | 1,890,000             | -                   | 1,890,000             | -                     |
| Notes and loans payable   | -   | 3,567,000             | 75,000              | 3,642,000             | -                     |
| Capital leases payable  | -   | -                     | -                   | -                     | -                     |
| Accrued interest payable  | -   | 1,906,975             | 32,688              | 1,939,663             | -                     |
| <b>Total current liabilities</b>  | <b>387,606</b>                              | <b>8,778,435</b>      | <b>107,752</b>      | <b>9,273,793</b>      | <b>176,815</b>        |
| <b>Noncurrent liabilities:</b>  |   |                       |                     |                       |                       |
| <b>Revenue bonds payable (net of unamortized discounts or premiums)</b> |   |                       |                     |                       |                       |
|   | -   | 50,785,894            | -                   | 50,785,894            | -                     |
| Notes and loans payable   | -   | 42,140,080            | 2,580,000           | 44,720,080            | -                     |
| OPEB obligation   | 225,295                                     | 225,294               | -                   | 450,589               | -                     |
| Net pension obligation  | 89,012                                      | 109,956               | -                   | 198,968               | -                     |
| <b>Total noncurrent liabilities</b>                                     | <b>314,307</b>                              | <b>93,261,224</b>     | <b>2,580,000</b>    | <b>96,155,531</b>     | <b>-</b>              |
| <b>Total liabilities</b>  | <b>701,913</b>                              | <b>102,039,659</b>    | <b>2,687,752</b>    | <b>105,429,324</b>    | <b>176,815</b>        |
| <b>Net Position</b>   |   |                       |                     |                       |                       |
| Net investment in capital assets  | 35,124,499                                  | 75,410,493            | 446,633             | 110,981,625           | -                     |
| Restricted  | 129,427                                     | 5,050,276             | 89,787              | 5,269,490             | -                     |
| Unrestricted  | 4,168,013                                   | 24,173,705            | 2,653,830           | 30,995,548            | 777,097               |
| <b>Total net position</b>   | <b>\$ 39,421,939</b>                        | <b>\$ 104,634,474</b> | <b>\$ 3,190,250</b> | <b>\$ 147,246,663</b> | <b>\$ 777,097</b>     |

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

CITY OF LAFAYETTE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2012

|   | Enterprise Funds     |                       |                     | Total                 | Internal<br>Service Fund |
|---|----------------------|-----------------------|---------------------|-----------------------|--------------------------|
|   | Water<br>Utility     | Wastewater<br>Utility | Other<br>Enterprise |                       |                          |
| Operating revenues:   |                      |                       |                     |                       |                          |
| Unmetered water revenue                                     | \$ 35,361            | \$ -                  | \$ -                | \$ 35,361             | \$ -                     |
| Metered water revenue:                                      |                      |                       |                     |                       |                          |
| Residential   | 3,575,230            | -                     | -                   | 3,575,230             | -                        |
| Commercial  | 1,866,303            | -                     | -                   | 1,866,303             | -                        |
| Industrial  | 701,394              | -                     | -                   | 701,394               | -                        |
| Recoveries to operations                                    | -                    | -                     | -                   | -                     | -                        |
| Fire protection revenue                                     | 1,264,453            | -                     | -                   | 1,264,453             | -                        |
| Measured revenue:   |                      |                       |                     |                       |                          |
| Residential   | -                    | 7,285,020             | -                   | 7,285,020             | -                        |
| Commercial  | -                    | 6,370,030             | -                   | 6,370,030             | -                        |
| Industrial  | -                    | 10,473,005            | -                   | 10,473,005            | -                        |
| Other   | 549,018              | 1,157,828             | 76,682              | 1,783,528             | 608,605                  |
| <b>Total operating revenues</b>                             | <b>7,991,759</b>     | <b>25,285,883</b>     | <b>76,682</b>       | <b>33,354,324</b>     | <b>608,605</b>           |
| Operating expenses:   |                      |                       |                     |                       |                          |
| Source of supply and expense - operations and maintenance   | 1,160,537            | -                     | -                   | 1,160,537             | -                        |
| Water treatment expense - operations and maintenance        | 315,760              | -                     | -                   | 315,760               | -                        |
| Transmission and distribution                               | 844,515              | -                     | -                   | 844,515               | -                        |
| Pumping - operations and maintenance                        | 116,438              | -                     | -                   | 116,438               | -                        |
| Collection system - operations and maintenance              | -                    | 1,248,803             | -                   | 1,248,803             | -                        |
| Treatment and disposal expense - operations and maintenance | -                    | 3,110,951             | -                   | 3,110,951             | -                        |
| Customer accounts   | 581,864              | 576,260               | -                   | 1,158,124             | -                        |
| Administration and general                                  | 2,961,950            | 5,178,292             | -                   | 8,140,242             | 578,669                  |
| Bad debt expense  | 28,042               | 48,627                | -                   | 76,669                | -                        |
| Depreciation and amortization                               | 1,043,557            | 6,352,152             | 69,740              | 7,465,449             | 458                      |
| Change in pension and OPEB obligation                       | 283,202              | 296,827               | -                   | 580,029               | -                        |
| Miscellaneous expenses                                      | -                    | -                     | 11,111              | 11,111                | -                        |
| <b>Total operating expenses</b>                             | <b>7,335,865</b>     | <b>16,811,912</b>     | <b>80,851</b>       | <b>24,228,628</b>     | <b>579,127</b>           |
| <b>Operating income</b>                                     | <b>655,894</b>       | <b>8,473,971</b>      | <b>(4,169)</b>      | <b>9,125,696</b>      | <b>29,478</b>            |
| Nonoperating revenues (expenses):                           |                      |                       |                     |                       |                          |
| Interest and investment revenue                             | 17,920               | 55,476                | 23                  | 73,419                | -                        |
| Miscellaneous revenue                                       | -                    | 21,686                | 74,800              | 96,486                | -                        |
| Amortization of bond costs                                  | -                    | (165,485)             | (5,000)             | (170,485)             | -                        |
| Interest expense  | -                    | (3,939,178)           | (150,323)           | (4,089,501)           | -                        |
| Miscellaneous expense                                       | (100,069)            | -                     | -                   | (100,069)             | -                        |
| <b>Total nonoperating revenue (expenses)</b>                | <b>(82,149)</b>      | <b>(4,027,501)</b>    | <b>(80,500)</b>     | <b>(4,190,150)</b>    | <b>-</b>                 |
| <b>Income (loss) before contributions and transfers</b>     | <b>573,745</b>       | <b>4,446,470</b>      | <b>(84,669)</b>     | <b>4,935,546</b>      | <b>29,478</b>            |
| Capital contributions                                       | 594,745              | 793,771               | -                   | 1,388,516             | -                        |
| Transfers in  | 388,506              | 992,251               | 1,307,596           | 2,688,353             | -                        |
| Transfers out   | -                    | -                     | -                   | -                     | (121,502)                |
| <b>Change in net position</b>                               | <b>1,556,996</b>     | <b>6,232,492</b>      | <b>1,222,927</b>    | <b>9,012,415</b>      | <b>(92,024)</b>          |
| <b>Total net position - beginning</b>                       | <b>37,864,943</b>    | <b>98,401,982</b>     | <b>1,967,323</b>    | <b>138,234,248</b>    | <b>869,121</b>           |
| <b>Total net position - ending</b>                          | <b>\$ 39,421,939</b> | <b>\$ 104,634,474</b> | <b>\$ 3,190,250</b> | <b>\$ 147,246,663</b> | <b>\$ 777,097</b>        |

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, 2012

|   | Enterprise Funds    |                       |                     |                      | Internal<br>Service Fund |
|---|---------------------|-----------------------|---------------------|----------------------|--------------------------|
|   | Water<br>Utility    | Wastewater<br>Utility | Other<br>Enterprise | Total                |                          |
| <b>Cash flows from operating activities:</b>  |                     |                       |                     |                      |                          |
| Receipts from customers and users   | \$ 8,001,760        | \$ 25,513,162         | \$ 76,683           | \$ 33,591,605        | \$ 560,571               |
| Payments to suppliers   | (3,714,341)         | (5,615,378)           | (11,112)            | (9,340,831)          | (549,339)                |
| Payments to employees   | (2,181,027)         | (3,691,977)           | -                   | (5,873,004)          | -                        |
| Net cash provided by operating activities   | <u>2,106,392</u>    | <u>16,205,807</u>     | <u>65,571</u>       | <u>18,377,770</u>    | <u>11,232</u>            |
| <b>Cash flows from noncapital financing activities:</b>   |                     |                       |                     |                      |                          |
| Transfer to other funds   | -                   | -                     | -                   | -                    | (121,502)                |
| Transfer from other funds   | 12,150              | 13,365                | 150,000             | 175,515              | -                        |
| Nonoperating revenue  | -                   | -                     | 147,301             | 147,301              | -                        |
| Nonoperating expenses   | (100,069)           | -                     | -                   | (100,069)            | -                        |
| Net cash provided by noncapital financing activities  | <u>(87,919)</u>     | <u>13,365</u>         | <u>297,301</u>      | <u>222,747</u>       | <u>(121,502)</u>         |
| <b>Cash flows from capital and related financing activities:</b>  |                     |                       |                     |                      |                          |
| Payback of interfund loan   | -                   | 2,000,000             | -                   | 2,000,000            | (5,500)                  |
| Purchase of capital assets  | (1,194,734)         | (6,706,502)           | -                   | (7,901,236)          | -                        |
| Principal paid on capital debt  | (340,000)           | (5,260,000)           | (250,000)           | (5,850,000)          | -                        |
| Interest paid on capital debt   | (6,460)             | (3,959,464)           | (149,322)           | (4,115,246)          | -                        |
| Net cash used by capital and related financing activities   | <u>(1,541,194)</u>  | <u>(13,925,966)</u>   | <u>(399,322)</u>    | <u>(15,866,482)</u>  | <u>(5,500)</u>           |
| <b>Cash flows from investing activities:</b>  |                     |                       |                     |                      |                          |
| Interest received   | 17,790              | 55,464                | 23                  | 73,277               | -                        |
| Net increase (decrease) in cash and cash equivalents  | 495,069             | 2,348,670             | (36,427)            | 2,807,312            | (115,770)                |
| <b>Cash and cash equivalents, January 1</b><br>(Including \$122,631 and \$4,103,031 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)   |                     |                       |                     |                      |                          |
|   | <u>3,826,851</u>    | <u>25,549,736</u>     | <u>195,296</u>      | <u>29,571,883</u>    | <u>363,528</u>           |
| <b>Cash and cash equivalents, December 31</b><br>(Including \$129,427 and \$5,050,276 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts) |                     |                       |                     |                      |                          |
|   | <u>\$ 4,321,920</u> | <u>\$ 27,898,406</u>  | <u>\$ 158,869</u>   | <u>\$ 32,379,195</u> | <u>\$ 247,758</u>        |
| <b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>  |                     |                       |                     |                      |                          |
| Operating income  | \$ 655,894          | \$ 8,473,970          | \$ (4,169)          | \$ 9,125,695         | \$ 29,478                |
| <b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>   |                     |                       |                     |                      |                          |
| Depreciation expense  | 1,043,557           | 6,352,152             | 69,740              | 7,465,449            | 458                      |
| <b>(Increase) decrease in assets:</b>   |                     |                       |                     |                      |                          |
| Accounts receivable   | 12,057              | 129,601               | -                   | 141,658              | -                        |
| Inventories   | 45,257              | (14,669)              | -                   | 30,588               | (12,930)                 |
| Deferred bond costs   | -                   | 138,251               | -                   | 138,251              | -                        |
| <b>Increase (decrease) in liabilities:</b>  |                     |                       |                     |                      |                          |
| Customer deposits   | 6,796               | -                     | -                   | 6,796                | -                        |
| Accounts payable  | 34,994              | 610,636               | -                   | 645,630              | 32,344                   |
| Accrued wages payable   | 14,514              | 26,236                | -                   | 40,750               | -                        |
| Interfund services provided and used  | 11,071              | 15,433                | -                   | 26,504               | (38,118)                 |
| Pension benefit obligation  | 57,907              | 71,533                | -                   | 129,440              | -                        |
| OPEB obligation   | 225,295             | 225,294               | -                   | 450,589              | -                        |
| Other payable   | (950)               | 177,370               | -                   | 176,420              | -                        |
| Total adjustments   | <u>1,450,498</u>    | <u>7,731,837</u>      | <u>69,740</u>       | <u>9,252,075</u>     | <u>(18,246)</u>          |
| Net cash provided by operating activities   | <u>\$ 2,106,392</u> | <u>\$ 16,205,807</u>  | <u>\$ 65,571</u>    | <u>\$ 18,377,770</u> | <u>\$ 11,232</u>         |
| <b>Noncash investing, capital and financing activities:</b>   |                     |                       |                     |                      |                          |
| Contributions of capital assets from private contractors  | \$ 588,272          | \$ 786,621            | \$ -                | 1,374,893            | \$ -                     |

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

CITY OF LAFAYETTE  
STATEMENT OF FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS  
December 31, 2012

| <u>Assets</u>                                  | <u>Pension<br/>Trust<br/>Funds</u> | <u>Agency<br/>Funds</u> |
|--|------------------------------------|-------------------------|
| Cash and cash equivalents                      | \$ 2,031,447                       | \$ 795,895              |
| Receivables:                                   |                                    |                         |
| Accounts receivable                            | -                                  | -                       |
| Taxes  | -                                  | -                       |
| Intergovernmental                              | -                                  | -                       |
| Total receivables                              | -                                  | -                       |
| Total assets                                   | <u>\$ 2,031,447</u>                | <u>\$ 795,895</u>       |
| <br><u>Liabilities</u>                         |                                    |                         |
| Trust payable                                  | \$ -                               | \$ 2,782                |
| Accounts payable                               | -                                  | 793,113                 |
| Total liabilities                              | -                                  | <u>\$ 795,895</u>       |
| <br><u>Net position</u>                        |                                    |                         |
| Net position held in trust for:                |                                    |                         |
| Employees' pension benefits and other purposes | <u>2,031,447</u>                   |                         |
| Total net position                             | <u>\$ 2,031,447</u>                |                         |

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

CITY OF LAFAYETTE  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2012

| <u>Additions</u>         | <u>Pension<br/>Trust<br/>Funds</u> |
|--------------------------|------------------------------------|
| Contributions:           |                                    |
| State Contributions      | \$ <u>4,198,586</u>                |
| Total additions          | <u>4,198,586</u>                   |
| <br><u>Deductions</u>    |                                    |
| Benefits                 | 3,999,319                          |
| Administrative expense   | <u>11,860</u>                      |
| Total deductions         | <u>4,011,179</u>                   |
| Changes in net position  | 187,407                            |
| Net position - beginning | <u>1,844,040</u>                   |
| Net position - ending    | <u>\$ 2,031,447</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 was established under the laws of the State of Indiana. The City 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

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 and they do not issue a separate financial statement. The blended component unit is presented below:

| <u>Component Unit</u>                   | <u>Description/Inclusion Criteria</u>   | <u>Fund Included In</u>                         |
|---|---|---|
| Lafayette<br>Redevelopment<br>Authority | The City 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 –<br>Redevelopment Authority |

Joint Venture

The City 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 City's officials are also responsible for appointing the members of the Boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City 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 Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City and its component unit. 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 within 60 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.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

The Parks 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 Thoroughfares Fund accounts for resources received through agreements with governmental agencies and spent to refurbish and upgrade sections of the City's roads.

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 Central Consolidated TIF Fund accounts for resources derived from improvements from designated areas within the City. Funds are utilized for further improvements with the designated area.

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the operation of the City's water distribution system.

The Wastewater Utility Fund accounts for the operation of the City'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.

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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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 "internal receivables/payables" (i.e., the current and noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the 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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the 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, 2012. The property taxes that were not distributed by December 31 are reported as receivable and are recognized as revenue on all financial statements. The taxes were received by January 31, 2013. 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 Position and are recognized as taxes 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 Position because their use is limited by applicable bond covenants.

The financial statements report \$6,435,404 of restricted net position, of which, \$1,155,914 is restricted by enabling legislation.

6. Capital Assets

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

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

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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

|  | Capitalization<br>Threshold | Depreciation<br>Method | Estimated<br>Useful Life |
|--|-----------------------------|------------------------|--------------------------|
| Land improvements  | \$ 1                        | N/A                    | N/A                      |
| Buildings  | 5,000                       | Straight-line          | 40 to 60 yrs.            |
| Improvements   | 5,000                       | Straight-line          | 40 to 60 yrs.            |
| Vehicles   | 5,000                       | Straight-line          | 3 to 5 yrs.              |
| Machinery and Equipment  | 5,000                       | Straight-line          | 3 to 5 yrs.              |
| Infrastructure (roads)   | 5,000                       | Straight-line          | 50 yrs.                  |
| Infrastructure (Water and Wastewater<br>mains, manholes, inlets, etc.) | 5,000                       | Straight-line          | 60 yrs.                  |
| Wastewater distribution and<br>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 \$4,089,501. Of the amount, none was included as part of the cost of capital assets under construction.

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 be accumulated to a maximum of 5 days carryover 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 of Net Position. 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.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 accordance with Government Accounting Standards Board Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Mayor, Clerk, Department Heads, and the Board of Works.

Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

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 of America. All annual appropriations lapse at fiscal yearend.

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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2012, expenditures exceeded budgeted appropriations in the following fund, by the amount below:

| Fund                         | Amount    |
|------------------------------|-----------|
| Police continuing education  | \$ 35,942 |
| Local option highway use tax | 9,896     |
| Park bond                    | 24,538    |
| Total                        | \$ 70,376 |

These expenditures were funded by existing cash reserves.

C. Deficit Fund Equity

At December 31, 2012, there were no funds reporting deficit in fund equity.

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. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers public funds held in approved depositories.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Investments

As of December 31, 2012, the City had no investments.

B. Receivables

The Lahr loan receivable, reported in Proprietary Funds - Other Enterprises, 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 \$2,617,500 and monthly remittances are scheduled until 2018.

C. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

| Primary Government                              | Beginning<br>Balance  | Increases            | Decreases           | Ending<br>Balance     |
|---|-----------------------|----------------------|---------------------|-----------------------|
| Governmental activity:                          |                       |                      |                     |                       |
| Capital assets, not being depreciated:          |                       |                      |                     |                       |
| Land  | \$ 23,770,483         | \$ 2,049,867         | \$ 806,460          | \$ 25,013,890         |
| Construction in progress                        | 7,383,029             | 5,398,389            | 3,479,610           | 9,301,808             |
| Total capital assets, not being depreciated     | <u>31,153,512</u>     | <u>7,448,256</u>     | <u>4,286,070</u>    | <u>34,315,698</u>     |
| Capital assets, being depreciated:              |                       |                      |                     |                       |
| Buildings                                       | 33,441,471            | 84,073               | 42,036              | 33,483,508            |
| Improvements other than buildings               | 7,554,188             | 65,147               | 27,574              | 7,591,761             |
| Machinery and equipment                         | 6,057,211             | 438,476              | 227,316             | 6,268,371             |
| Vehicles  | 12,866,345            | 139,312              | 577,143             | 12,428,514            |
| Infrastructure                                  | 184,577,949           | 10,981,704           | 3,304,658           | 192,254,995           |
| Totals  | <u>244,497,164</u>    | <u>11,708,712</u>    | <u>4,178,727</u>    | <u>252,027,149</u>    |
| Less accumulated depreciation for:              |                       |                      |                     |                       |
| Buildings                                       | (9,084,060)           | (742,600)            | -                   | (9,826,660)           |
| Improvements other than buildings               | (2,898,268)           | (365,961)            | -                   | (3,264,229)           |
| Machinery and equipment                         | (5,157,170)           | (322,995)            | (24,483)            | (5,455,682)           |
| Vehicles  | (10,684,488)          | (631,250)            | (503,497)           | (10,812,241)          |
| Infrastructure                                  | (54,247,584)          | (2,972,894)          | -                   | (57,220,478)          |
| Totals  | <u>(82,071,570)</u>   | <u>(5,035,700)</u>   | <u>(527,980)</u>    | <u>(86,579,290)</u>   |
| Total capital assets, being depreciated, net    | <u>162,425,594</u>    | <u>6,673,012</u>     | <u>3,650,747</u>    | <u>165,447,859</u>    |
| Total governmental activity capital assets, net | <u>\$ 193,579,106</u> | <u>\$ 14,121,268</u> | <u>\$ 7,936,817</u> | <u>\$ 199,763,557</u> |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| Primary Government                               | Beginning<br>Balance  | Increases           | Decreases           | Ending<br>Balance     |
|--|-----------------------|---------------------|---------------------|-----------------------|
| Business-type activity:                          |                       |                     |                     |                       |
| Capital assets, not being depreciated:           |                       |                     |                     |                       |
| Land   | \$ 2,044,596          | \$ 326,866          | \$ -                | \$ 2,371,462          |
| Construction in progress                         | <u>5,347,708</u>      | <u>6,867,220</u>    | <u>2,621,064</u>    | <u>9,593,864</u>      |
| Total capital assets, not being depreciated      | <u>7,392,304</u>      | <u>7,194,086</u>    | <u>2,621,064</u>    | <u>11,965,326</u>     |
| Capital assets, being depreciated:               |                       |                     |                     |                       |
| Buildings  | 18,315,429            | 1,141,491           | -                   | 19,456,920            |
| Improvements other than buildings                | 215,016               | -                   | -                   | 215,016               |
| Machinery and equipment                          | 72,200,263            | 1,039,756           | 58,500              | 73,181,519            |
| Vehicles   | 2,779,474             | 406,995             | 133,538             | 3,052,931             |
| Infrastructure                                   | <u>161,071,813</u>    | <u>3,429,367</u>    | <u>-</u>            | <u>164,501,180</u>    |
| Totals   | <u>254,581,995</u>    | <u>6,017,609</u>    | <u>192,038</u>      | <u>260,407,566</u>    |
| Less accumulated depreciation for:               |                       |                     |                     |                       |
| Buildings  | (3,498,396)           | (389,999)           | -                   | (3,888,395)           |
| Improvements other than buildings                | (68,734)              | (10,522)            | -                   | (79,256)              |
| Machinery and equipment                          | (26,594,558)          | (3,648,703)         | (58,500)            | (30,184,761)          |
| Vehicles   | (1,781,125)           | (275,813)           | (133,538)           | (1,923,400)           |
| Infrastructure                                   | <u>(21,137,069)</u>   | <u>(3,140,412)</u>  | <u>-</u>            | <u>(24,277,481)</u>   |
| Totals   | <u>(53,079,882)</u>   | <u>(7,465,449)</u>  | <u>(192,038)</u>    | <u>(60,353,293)</u>   |
| Total capital assets, being depreciated, net     | <u>201,502,113</u>    | <u>(1,447,840)</u>  | <u>-</u>            | <u>200,054,273</u>    |
| Total business-type activity capital assets, net | <u>\$ 208,894,417</u> | <u>\$ 5,746,246</u> | <u>\$ 2,621,064</u> | <u>\$ 212,019,599</u> |

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

Governmental activities:

|   |               |
|---|---------------|
| General government  | \$ 407,554    |
| Public safety   | 703,284       |
| Public works, including depreciation of general infrastructure assets | 3,023,266     |
| Health and sanitation   | 60,593        |
| Culture and recreation  | 822,861       |
| Community development   | <u>18,142</u> |

Total depreciation expense - governmental activities \$ 5,035,700

Business-type activities:

|            |               |
|------------|---------------|
| Water      | \$ 1,043,557  |
| Wastewater | 6,352,152     |
| Other      | <u>69,740</u> |

Total depreciation expense - business-type activities \$ 7,465,449

Grand Total \$ 12,501,149

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Construction Commitments

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

| Project                                 | Total<br>Project<br>Authorized | Expended to<br>December 31,<br>2012 | Committed            | x<br>Require<br>Future<br>Funding |
|---|--------------------------------|-------------------------------------|----------------------|-----------------------------------|
| Governmental activities:                |                                |                                     |                      |                                   |
| Police Annex-Armory                     | \$ 400,911                     | \$ 400,911                          | \$ -                 |                                   |
| Myer's Ped Bridge Rehab                 | 204,500                        | 37,442                              | 167,058              | x                                 |
| Depot Platform Rehab                    | 100,000                        | 94,356                              | 5,644                | x                                 |
| Fire Grant 37K Fairfield Twsp           | 37,000                         | 31,233                              | 5,767                | x                                 |
| Concord Road Reconstruction             | 6,600,000                      | 1,312,216                           | 5,287,784            | x                                 |
| Maple Point Extension                   | 3,500,000                      | 2,091,234                           | 1,408,766            | x                                 |
| Creasy Lane/SR 26 Land Acquisition      | 50,369                         | 2,021                               | 48,348               | x                                 |
| Old Romney Road                         | 4,550,000                      | 464,434                             | 4,085,566            | x                                 |
| Park East Extension                     | 1,200                          | 1,175                               | 25                   |                                   |
| VPM from Concord to US 52               | 5,400,000                      | 246,575                             | 5,153,425            | x                                 |
| S. 18th Street Widening                 | 1,460,000                      | 88,175                              | 1,371,825            | x                                 |
| Sagamore Pkwy Reconstruction            | 20,000,000                     | 277,913                             | 19,722,087           | x                                 |
| South Street Reconstruction             | 1,000,000                      | 534,466                             | 465,534              | x                                 |
| McAllister Center Exterior Repairs      | 42,037                         | 41,180                              | 857                  | x                                 |
| Main St. & Everett St. Vacant Lot       | 300                            | 294                                 | 6                    |                                   |
| Zoo Education Building                  | 31,649                         | 31,649                              | -                    |                                   |
| Riverfront Development                  | 505,000                        | 18,259                              | 486,741              | x                                 |
| 515 Columbia Street                     | 20,000                         | 9,438                               | 10,562               | x                                 |
| Annexation                              | 26,424                         | 26,424                              | -                    |                                   |
| Predevelopment Chatham Square           | 10,484                         | 10,484                              | -                    |                                   |
| Streetscape Alabama/3rd Street          | 1,200,000                      | 207,016                             | 992,984              | x                                 |
| Sidewalks                               | 280,000                        | 32,842                              | 247,158              | x                                 |
| Roads/SW/Streets Glen Acres             | 655,000                        | 56,188                              | 598,812              | x                                 |
| Trail Development                       | 250,000                        | 228,947                             | 21,053               | x                                 |
| Midwest Rentals Redevelopment           | 300,000                        | 210,632                             | 89,368               | x                                 |
| Glen Acres/Vinton Neighborhood Expense  | 75,000                         | 74,312                              | 688                  | x                                 |
| Streetscape V                           | 67,000                         | 16,377                              | 50,623               | x                                 |
| Queen Ann Courts                        | 510,047                        | 510,047                             | -                    | x                                 |
| Quiet Zone                              | 842,300                        | 660,666                             | 181,634              | x                                 |
| Concord/Sequoya Drainage                | 1,500                          | 1,165                               | 335                  | x                                 |
| North Street Reconstruct and Stormwater | 1,200,000                      | 809,896                             | 390,104              | x                                 |
| Sidewalks N. 26th Cason to Unions       | 99,950                         | 72,507                              | 27,443               | x                                 |
| Citywide Trail Master Plan              | 150,000                        | 35,206                              | 114,794              | x                                 |
| Sidewalk SR 38 From Kingsway to Creasy  | 300,000                        | 11,013                              | 288,987              | x                                 |
| Main/Alcoa Traffic Signal               | 49,917                         | 49,917                              | -                    |                                   |
| Video System-Columbia Park/Hannah/Depot | 5,000                          | -                                   | 5,000                | x                                 |
| Vehicle Purchases                       | 623,107                        | 605,198                             | 17,909               | x                                 |
| Totals governmental funds               | <u>\$ 50,548,695</u>           | <u>\$ 9,301,808</u>                 | <u>\$ 41,246,887</u> |                                   |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| Project                                     | Total<br>Project<br>Authorized | Expended to<br>December 31,<br>2012 | Committed            | x<br>Require<br>Future<br>Funding |
|---|--------------------------------|-------------------------------------|----------------------|-----------------------------------|
| Enterprise funds:                           |                                |                                     |                      |                                   |
| Drainage Valley Street                      | \$ 4,000,000                   | \$ 71,912                           | \$ 3,928,088         | x                                 |
| Orchard Heights Drainage Ph I               | 693,611                        | 693,611                             | -                    |                                   |
| Union Street Drainage                       | 730,000                        | 86,540                              | 643,460              | x                                 |
| Rome Drive Land                             | 40,000                         | 1,928                               | 38,072               | x                                 |
| CSO LCTP                                    | 600,000                        | 560,863                             | 39,137               | x                                 |
| Utility Service Area 21                     | 8,500,000                      | 566,809                             | 7,933,191            | x                                 |
| Wea Creek Bank Stabilization Project        | 188,750                        | 171,301                             | 17,449               | x                                 |
| Flow Study                                  | 129,300                        | 129,300                             | -                    |                                   |
| Durkees Run @ Saw Mill Run                  | 75,000                         | 68,720                              | 6,280                |                                   |
| Sludge Haul Project                         | 40,000                         | 39,289                              | 711                  | x                                 |
| Cincinnati St CS003 Interceptor Sewer       | 1,600,000                      | 1,323,105                           | 276,895              | x                                 |
| Shawnee Sewer Rehab                         | 21,546                         | 21,546                              | -                    |                                   |
| Solar Power WWTP                            | 4,000,000                      | 94,314                              | 3,905,686            | x                                 |
| 2012 Sewer/Storm Vehicle Purchases          | 103,199                        | 103,199                             | -                    |                                   |
| Greenwich Sewer Rehab                       | 14,500                         | 14,500                              | -                    |                                   |
| Durkee's Run CSO                            | 29,000,000                     | 2,441,806                           | 26,558,194           | x                                 |
| Stormwater Equip Storage Building           | 49,890                         | 30,616                              | 19,274               | x                                 |
| Sewer Line Preventative Maintenance         | 200,000                        | 169,027                             | 30,973               | x                                 |
| Concord/Sequoia Drainage                    | 150                            | 148                                 | 2                    |                                   |
| Green Infrastructure Feasibility & Strategy | 500,000                        | 73,819                              | 426,181              | x                                 |
| Wabash River Bank Stabilization             | 31,000                         | 30,210                              | 790                  | x                                 |
| Congress Street Storm Sewer                 | 50,000                         | 46,681                              | 3,319                | x                                 |
| North Street Reconstruct and Stormwater     | 1,400,000                      | 915,677                             | 484,323              | x                                 |
| North 9th Wetland Mitigation                | 37,950                         | 17,700                              | 20,250               | x                                 |
| Video System-Columbia Park/Hannah/Depot     | 2,782                          | 2,782                               | -                    |                                   |
| New Well Field Investigation                | 705,000                        | 664,503                             | 40,497               | x                                 |
| Glick Well Field Generator                  | 16,856                         | 16,856                              | -                    | x                                 |
| Onsite Chlorine Generation-Glick            | 355,000                        | 107,456                             | 247,544              | x                                 |
| Utilities at US52                           | 59,230                         | 50,360                              | 8,870                | x                                 |
| SCADA                                       | 146,981                        | 125,371                             | 21,610               | x                                 |
| Meter Change out                            | 1,277,830                      | 777,830                             | 500,000              | x                                 |
| Fiber Optics to Water Infrastructure        | 150,000                        | 122,045                             | 27,955               | x                                 |
| Union Street Water Tower Restore            | 5,140                          | 5,140                               | -                    |                                   |
| Air Line Painting                           | 48,900                         | 48,900                              | -                    |                                   |
| Total enterprise funds                      | <u>54,772,615</u>              | <u>9,593,864</u>                    | <u>45,178,751</u>    |                                   |
| Grand total for CWIP                        | <u>\$ 105,321,310</u>          | <u>\$ 18,895,672</u>                | <u>\$ 86,425,638</u> |                                   |

E. Interfund Balances and Activities

1. Interfund Services Provided/Used

The composition of interfund services provided/used other funds as of the end of the year is as follows:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| Interfund Services Used | Interfund Services Provided |               |                      |                      |                 |                 |                   | Totals            |
|-------------------------|-----------------------------|---------------|----------------------|----------------------|-----------------|-----------------|-------------------|-------------------|
|                         | General                     | Motor Vehicle | Parks and Recreation | Non-Major Government | Water           | Wastewater      | Internal Service  |                   |
| Governmental:           |                             |               |                      |                      |                 |                 |                   |                   |
| General                 | \$ -                        | \$ -          | \$ -                 | \$ -                 | \$ -            | \$ -            | \$ 245,947        | \$ 245,947        |
| Motor vehicle           | -                           | -             | -                    | -                    | -               | -               | 96,044            | 96,044            |
| Parks and recreational  | -                           | -             | -                    | -                    | -               | -               | 17,121            | 17,121            |
| EDIT                    | -                           | -             | -                    | -                    | -               | -               | 426               | 426               |
| Non-major governmental  | -                           | -             | -                    | 46,314               | -               | -               | 144               | 46,458            |
| Proprietary:            |                             |               |                      |                      |                 |                 |                   |                   |
| Water                   | -                           | -             | -                    | -                    | -               | 4,769           | 28,378            | 33,147            |
| Wastewater              | -                           | -             | -                    | -                    | 4,958           | -               | 59,933            | 64,891            |
| Internal Service        | 19                          | 46            | 263                  | -                    | -               | -               | -                 | 328               |
| <b>Totals</b>           | <b>\$ 19</b>                | <b>\$ 46</b>  | <b>\$ 263</b>        | <b>\$ 46,314</b>     | <b>\$ 4,958</b> | <b>\$ 4,769</b> | <b>\$ 447,993</b> | <b>\$ 504,362</b> |

Due to/from other funds resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Interfund Transfers

Interfund transfers for the year end in the fund financial statements were as follows:

| Transfers Out          | Transfers In     |                  |                      |                   |                                |                      |                   |                   |                     |                  |                     |
|------------------------|------------------|------------------|----------------------|-------------------|--------------------------------|----------------------|-------------------|-------------------|---------------------|------------------|---------------------|
|                        | General          | Motor Vehicle    | Parks and Recreation | EDIT              | TIF Alloc Central Consolidated | Non-Major Government | Water             | Wastewater        | Parking Garage      | Internal Service | Totals              |
| Governmental:          |                  |                  |                      |                   |                                |                      |                   |                   |                     |                  |                     |
| General                | \$ -             | \$ -             | \$ -                 | \$ -              | \$ -                           | \$ -                 | \$ -              | \$ -              | \$ -                | \$ -             | \$ -                |
| Motor vehicle          | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | -                   | -                | -                   |
| Parks and recreational | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | -                   | -                | -                   |
| EDIT                   | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | -                   | -                | -                   |
| TIF allocation Central | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | 1,307,597           | -                | 1,307,597           |
| Non-major governmental | 1,295            | -                | -                    | 338,893           | -                              | -                    | 376,356           | 978,885           | -                   | -                | 1,695,429           |
| Proprietary:           |                  |                  |                      |                   |                                |                      |                   |                   |                     |                  |                     |
| Water                  | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | -                   | -                | -                   |
| Wastewater             | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | -                   | -                | -                   |
| Parking Garage         | -                | -                | -                    | -                 | -                              | -                    | -                 | -                 | -                   | -                | -                   |
| Internal Service       | 80,191           | 10,935           | 4,861                | -                 | -                              | -                    | 12,150            | 13,365            | -                   | -                | 121,502             |
| <b>Totals</b>          | <b>\$ 81,486</b> | <b>\$ 10,935</b> | <b>\$ 4,861</b>      | <b>\$ 338,893</b> | <b>\$ -</b>                    | <b>\$ -</b>          | <b>\$ 388,506</b> | <b>\$ 992,250</b> | <b>\$ 1,307,597</b> | <b>\$ -</b>      | <b>\$ 3,124,528</b> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt payments become due, (3) use unrestricted revenues from the General fund and EDIT fund to finance various programs accounted for in other funds in accordance with statutes or budgetary authorization and (4) transfer of assets from the fund that purchase or constructs the asset to the fund that will maintain the asset in accordance with statutes or budgetary authorizations.

F. 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 vehicles and other equipment.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Future minimum lease payments under these capital leases at year end are as follows:

|   | Government<br>Activities | Business-type<br>Activities |
|---|--------------------------|-----------------------------|
| 2013  | \$ 357,583               | \$ -                        |
| 2014  | 357,583                  | -                           |
| 2015  | 174,575                  | -                           |
| 2016  | -                        | -                           |
| Total minimum lease payments                | 889,741                  | -                           |
| Less amount representing interest           | 44,754                   | -                           |
| Present value of net minimum lease payments | \$ 844,987               | \$ -                        |

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

|                          | Governmental<br>Activities |
|--------------------------|----------------------------|
| Vehicles                 | \$ 1,316,857               |
| Accumulated depreciation | (406,167)                  |
| Total                    | \$ 910,690                 |

G. Short-Term Liabilities

The City had no short-term debt activity during the year.

H. 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<br>Rates | Balance at<br>December 31 | Unamortized<br>Premium<br>(Discount) | Amount       |
|--------------------------------------|-------------------|---------------------------|--------------------------------------|--------------|
| Park district refunding bonds of 201 | .96% to 2.0%      | \$ 5,880,000              | \$ 2,117                             | \$ 5,882,117 |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

|           | <u>Governmental Activities</u> |                   | <u>Business-Type Activities</u> |                 |
|-----------|--------------------------------|-------------------|---------------------------------|-----------------|
|           | <u>Principal</u>               | <u>Interest</u>   | <u>Principal</u>                | <u>Interest</u> |
| 2013      | \$ 925,000                     | \$ 33,638         | \$ -                            | \$ -            |
| 2014      | 880,000                        | 54,348            | -                               | -               |
| 2015      | 885,000                        | 45,876            | -                               | -               |
| 2016      | 895,000                        | 37,380            | -                               | -               |
| 2017      | 910,000                        | 26,374            | -                               | -               |
| 2018-2022 | <u>1,385,000</u>               | <u>16,560</u>     | <u>-</u>                        | <u>-</u>        |
| Totals    | <u>\$ 5,880,000</u>            | <u>\$ 214,176</u> | <u>\$ -</u>                     | <u>\$ -</u>     |

2. Revenue Bonds – Business-Type Activities

The City issues bonds where the City pledges income derived from the acquired or constructed assets net of specified operating expenditures to pay debt service. Proceeds from the 2006 bond provided financing for a new pumping station and a new elimination sewer. Proceeds from the 2008 bond provided financing for the construction and installation of energy conservation measures to the City's municipal sewage works.

Revenue bonds outstanding at year end are as follows:

| <u>Purpose</u>  | <u>Interest Rates</u> | <u>Balance at December 31</u> | <u>Less: Unamortized Premium (Discount)</u> | <u>Amount</u>        |
|---|-----------------------|-------------------------------|---|----------------------|
| Water pollution control refunding revenue bonds of 2006 | 3.5% to 4.5%          | \$ 25,790,000                 | \$ (789,354)                                | \$ 25,000,646        |
| Water pollution control revenue bonds of 2006           | 4% to 4.75%           | 23,920,000                    | (167,974)                                   | 23,752,026           |
| Water pollution control revenue bonds of 2008           | 3.5% to 4%            | <u>3,980,000</u>              | <u>(56,778)</u>                             | <u>3,923,222</u>     |
| Totals  |                       | <u>\$ 53,690,000</u>          | <u>\$ (1,014,106)</u>                       | <u>\$ 52,675,894</u> |

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

|           | <u>Business-Type Activities</u> |                      |
|-----------|---------------------------------|----------------------|
|           | <u>Principal</u>                | <u>Interest</u>      |
| 2013      | \$ 1,890,000                    | \$ 2,216,688         |
| 2014      | 1,965,000                       | 2,140,388            |
| 2015      | 2,055,000                       | 2,057,300            |
| 2016      | 2,140,000                       | 1,970,500            |
| 2017      | 2,240,000                       | 1,879,538            |
| 2018-2022 | 12,715,000                      | 7,909,667            |
| 2023-2027 | <u>30,685,000</u>               | <u>3,179,206</u>     |
| Totals    | <u>\$ 53,690,000</u>            | <u>\$ 21,353,287</u> |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Revenue Bonds – Government Activities

The Lafayette Redevelopment Authority (a blended component unit of the City, and acting on behalf of the City of Lafayette) issues revenue bonds. The revenue 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.

Proceeds of the 2004 bond financed the reconstruction of Brady Lane. The City has pledged County Economic Development Income Tax to repay the revenue bond.

The City has pledged a portion of Creasy/Brady/Treece Economic Development Area revenues to repay the tax increment bond issued in 2005 used to finance the Greenbush Street reconstruction project, and 2006 used to finance the construction of the Lafayette Pavilions retail complex, and the 2010A & 2010B Economic Development lease rental refunding bonds.

The City has pledged a portion of its distributive share of the Tippecanoe County Economic Development Income Tax to repay the Redevelopment Authority lease rental refunding bond of 2003, 2010B, and 2010C.

The City has pledged a portion of Twyckenham Economic Development Area revenues to repay the 2010C Economic Development lease rental refunding.

The City has pledged a portion of the Tax Increment revenues collected in the Central Redevelopment Area to repay the 2012 Redevelopment District refunding bond.

The City has pledged a portion of the Central Tax Increment revenue for the repayment of the Redevelopment Authority lease rental refunding bond of 2010A.

The revenue bonds are direct obligations and pledge the full faith and credit of the City.

Revenue bonds currently outstanding at year end are as follows:

| Purpose  | Interest Rates | Balance at December 31 | Premium (Discount) | Amount               |
|--|----------------|------------------------|--------------------|----------------------|
| 2003 Redevelopment Authority refunding bonds                       | 3.0% to 3.9%   | \$ 2,325,000           | \$ -               | \$ 2,325,000         |
| 2004 Redevelopment Authority lease rental bonds - Brady Lane       | 3.25% to 4.1%  | 4,500,000              | (58,067)           | 4,441,933            |
| 2005 Redevelopment Authority refunding bonds - Greenbush           | 3.0% to 4.1%   | 5,645,000              | 68,272             | 5,713,272            |
| 2006 Redevelopment Authority revenue bonds - Lafayette Pavilion    | 6.0%           | 2,595,000              | -                  | 2,595,000            |
| Economic Development lease rental refunding bonds series 2010 A    | 1.0% to 2.75%  | 740,000                | (5,815)            | 734,185              |
| Economic Development lease rental refunding bonds series 2010 B    | 2.0% to 4.0%   | 3,960,000              | 51,755             | 4,011,755            |
| Economic Development lease rental refunding bonds series 2010 C    | 2.0% to 3.2%   | 7,800,000              | (53,251)           | 7,746,749            |
| Redevelopment Authority lease revenue refunding bond series 2010 A | 2.0% to 3.5%   | 2,155,000              | (13,901)           | 2,141,099            |
| Redevelopment Authority lease revenue refunding bond series 2010 B | 2.0% to 3.25%  | 2,605,000              | (5,237)            | 2,599,763            |
| Redevelopment Authority lease revenue refunding bond series 2010 C | 2.0% to 4.0%   | 5,125,000              | 78,561             | 5,203,561            |
| Redevelopment District refunding bonds of 2012                     | 1.64%          | <u>3,870,000</u>       | <u>-</u>           | <u>3,870,000</u>     |
| Totals   |                | <u>\$ 41,320,000</u>   | <u>\$ 62,317</u>   | <u>\$ 41,382,317</u> |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

|           | Governmental Activities |              |
|-----------|-------------------------|--------------|
|           | Principal               | Interest     |
| 2013      | 5,220,000               | 1,208,913    |
| 2014      | 5,215,000               | 1,102,708    |
| 2015      | 5,615,000               | 1,102,708    |
| 2016      | 5,605,000               | 959,990      |
| 2017      | 5,010,000               | 773,021      |
| 2018-2022 | 11,440,000              | 1,418,197    |
| 2023-2027 | 3,215,000               | 239,409      |
| Totals    | \$ 41,320,000           | \$ 6,804,946 |

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, 2007, 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 \$36,390,000, \$7,297,080, and \$1,374,000, 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 \$2,655,000.

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

|           | Business-Type Activities |              |
|-----------|--------------------------|--------------|
|           | Principal                | Interest     |
| 2013      | \$ 3,642,000             | \$ 1,622,329 |
| 2014 (a)  | 4,421,000                | 1,495,325    |
| 2015      | 3,912,000                | 1,363,332    |
| 2016      | 4,714,000                | 1,183,607    |
| 2017      | 4,906,000                | 1,066,319    |
| 2018-2022 | 23,635,000               | 2,829,558    |
| 2023-2027 | 2,879,080                | 133,638      |
| 2028-2032 | 253,000                  | 13,865       |
| Totals    | \$ 48,362,080            | \$ 9,707,973 |

(a) Included in this schedule of requirements is a SRF 2009 loan for \$646,000 that is to be forgiven in 2014.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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  |
| 2013   | \$ 424,744              | \$ 28,974 |
| 2014   | 363,956                 | 18,798    |
| 2015   | 366,853                 | 10,651    |
| 2016   | 136,605                 | 2,458     |
| Totals | \$ 1,292,158            | \$ 60,881 |

6. Advance Refunding

In prior years, 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:

Primary government:

|  |              |
|--|--------------|
| 1994 Redevelopment Authority lease rental - \$9,365,000                  | \$ 4,480,000 |
| 1994 Redevelopment Authority lease rental - \$15,000,000                 | 7,785,000    |
| 1994 B Redevelopment Authority lease rental - \$5,665,000                | 2,665,000    |
| 1995 B Redevelopment Authority lease rental - \$8,200,000                | 4,165,000    |
| 1995 A Redevelopment Authority lease rental - \$3,360,000                | 2,370,000    |
| 1995 Redevelopment Authority lease rental - \$2,300,000                  | 960,000      |
| 1996 Redevelopment Authority lease rental refunding - \$4,025,000        | 4,025,000    |
| 1996 Redevelopment District Parking Facility Revenue Bonds - \$2,600,000 | 1,197,003    |
| 1997 Redevelopment Authority lease rental refunding - \$3,925,000        | 620,000      |
| 1998 Redevelopment Authority lease rental refunding - \$4,485,000        | 2,970,000    |
| 1998 Park District Bonds - \$5,500,000                                   | 2,500,000    |
| 1999 Redevelopment Authority lease rental refunding - \$7,980,000        | 5,235,000    |
| 2001A Redevelopment Authority lease rental refunding - \$3,500,000       | 2,200,000    |
| 2001B Redevelopment Authority lease rental refunding - \$5,000,000       | 3,140,000    |
| 2001 Park District Bonds - \$1,750,000                                   | 1,465,000    |
| 2002 Redevelopment Authority lease rental refunding - \$8,500,000        | 5,880,000    |
| 2002 Sewage Works revenue bonds - \$30,000,000                           | 23,935,000   |
| 2004 Park District Bonds - \$1,730,000                                   | 1,610,000    |
| 2004 A Tax Increment Revenue Bonds - \$2,145,000                         | 1,750,000    |
| 2004 B Tax Increment Revenue Bonds - \$735,000                           | 695,000      |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

7. Defeased Debt

Lafayette Park District Refunding Bonds of 2012

On December 27, 2012, the City of Lafayette Park District, in the name of the City of Lafayette, issued \$5,880,000 of Park District Refunding Bonds of 2012. This issue advance refunded the following issues: Park District Bonds of 1998 for \$2,500,000, Park District Bonds of 2001 for \$1,465,000, and Park District Bonds of 2004 for \$1,610,000 in the total amount of \$5,575,000. An irrevocable trust with an escrow agent was established to provide for the payoff of the above mention bonds on January 15, 2013. As a result, the refunded Bonds were considered to be defeased and are no longer reported as a liability in the City's financial statements.

The Park District advance refunded the bonds to reduce its total debt service payments in the future by approximately \$411,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$401,814.

Lafayette Redevelopment Authority District Refunding Bonds of 2012

On December 27, 2012, the Lafayette Redevelopment Authority, a blended component unit of the City of Lafayette, issued \$3,870,000 of Redevelopment District Refunding Revenue Bonds of 2012. This issue advance refunded the following issues: Redevelopment District Parking Facility Revenue Bonds of 1996 dated October 4, 1996, for \$1,197,003, Tax Increment Revenue Bonds of 2004, Series A dated December 22, 2004, for \$1,750,000, and Tax Increment Revenue Bonds of 2004, Series B dated December 22, 2004, for \$695,000, in the total amount of \$3,592,003. An irrevocable trust with an escrow agent was established to provide for the payoff of the above mention bonds on January 11, 2013. As a result, the refunded bonds were considered to be defeased and are no longer reported as a liability in the City's financial statements.

The Lafayette Redevelopment Authority advance refunded the bonds to reduce its total debt service payments in the future by approximately \$564,200 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$507,466.

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| Primary Government                                   | Beginning<br>Balance  | Additions            | Reductions           | Ending<br>Balance     | Due Within<br>One Year |
|--|-----------------------|----------------------|----------------------|-----------------------|------------------------|
| Governmental activities:                             |                       |                      |                      |                       |                        |
| General obligation bonds                             | \$ 6,370,000          | \$ 5,880,000         | \$ 6,370,000         | \$ 5,880,000          | \$ 925,000             |
| Less deferred amount on refunding                    | -                     | (2,117)              | -                    | (2,117)               | -                      |
| Total general obligation bonds payable               | <u>6,370,000</u>      | <u>5,882,117</u>     | <u>6,370,000</u>     | <u>5,882,117</u>      | <u>925,000</u>         |
| Revenue bonds  | 44,550,000            | 3,870,000            | 7,100,000            | 41,320,000            | 5,220,000              |
| Less deferred amount on refunding                    | (82,535)              | -                    | (20,218)             | (62,317)              | -                      |
| Total revenue bonds payable                          | <u>44,632,535</u>     | <u>3,870,000</u>     | <u>7,120,218</u>     | <u>41,382,317</u>     | <u>5,220,000</u>       |
| Notes payable  | 218,314               | 1,279,545            | 205,701              | 1,292,158             | 424,744                |
| Capital leases                                       | 1,224,803             | -                    | 379,816              | 844,987               | 332,812                |
| Other postemployee benefit obligations               | -                     | 225,295              | -                    | 225,295               | -                      |
| Net pension obligations                              | <u>23,230,075</u>     | <u>-</u>             | <u>492,679</u>       | <u>22,737,396</u>     | <u>-</u>               |
| Total governmental activities long-term liabilities  | <u>\$ 75,675,727</u>  | <u>\$ 11,256,957</u> | <u>\$ 14,568,414</u> | <u>\$ 72,364,270</u>  | <u>\$ 6,902,556</u>    |
| Business-type activities:                            |                       |                      |                      |                       |                        |
| Revenue bonds payable:                               |                       |                      |                      |                       |                        |
| Water Utility  | \$ 340,000            | -                    | \$ 340,000           | -                     | -                      |
| Wastewater Utility                                   | 55,505,000            | -                    | 1,815,000            | 53,690,000            | 1,890,000              |
| District parking facility                            | 1,327,000             | -                    | 1,327,000            | -                     | -                      |
| Less deferred amount on refunding                    | (1,118,870)           | -                    | (104,764)            | (1,014,106)           | -                      |
| Total revenue bonds payable                          | <u>56,053,130</u>     | <u>-</u>             | <u>3,377,236</u>     | <u>52,675,894</u>     | <u>1,890,000</u>       |
| Loans payable  | 51,877,080            | -                    | 3,515,000            | 48,362,080            | 3,642,000              |
| Other postemployee benefit obligations               | -                     | 450,589              | -                    | 450,589               | -                      |
| Net pension obligations                              | <u>69,528</u>         | <u>129,440</u>       | <u>-</u>             | <u>198,968</u>        | <u>-</u>               |
| Total business-type activities long-term liabilities | <u>\$ 107,999,738</u> | <u>\$ 580,029</u>    | <u>\$ 6,892,236</u>  | <u>\$ 101,687,531</u> | <u>\$ 5,532,000</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. Loans balances are systematically "forgiven" (reduced without cash payment) each year the recipient meets the requirements. The receivable is contingent upon the recipient not meeting the requirements and the amount of the receivable is not known until that time. The following schedule shows the changes in this contingent receivable for 2012:

|                                |                     |
|--------------------------------|---------------------|
| Beginning balance, January 1   | \$ 6,687,806        |
| New loans                      | 640,639             |
| Amounts forgiven               | (946,663)           |
| Principle amount paid on loans | <u>(26,764)</u>     |
| Ending balance, December 31    | <u>\$ 6,355,018</u> |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

I. Restricted Assets

1. The City has restricted assets for the following fund accounts:

Donor Designated Use

A special donation designated for a specific project that will be constructed in 2013.

Intergovernmental Cash Account

Cash in the City's checking account that is to be spent on projects designated by Tippecanoe County according to our agreement with them and our McCarty TIF Fund.

2. The City has restricted assets for the following Propriety (Enterprise) fund accounts:

Customer Deposits

Customer deposits are refundable amounts received from customers of Water Utility to insure nonpayment of billings or water main damages.

Debt Service Reserve

An amount of money that is required to maintain the reserve account in the full amount of a sum equal to the least of (i) the maximum semiannual debt reserve on the bonds, or (ii) 1,125 percent of the average annual debt service on the bonds, or (iii) 10 percent of the proceeds of the bond.

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

| Asset Type/Account             | Governmental Funds   |                     |                     | Enterprise Funds  |                     |                     |
|--------------------------------|----------------------|---------------------|---------------------|-------------------|---------------------|---------------------|
|                                | Parks and Recreation | TIF Alloc McCarty   | Totals              | Water Utility     | Wastewater Utility  | Totals              |
| Donor designated use           | \$ 10,000            | \$ -                | \$ 10,000           | \$ -              | \$ -                | \$ -                |
| Intergovernmental cash account | -                    | 1,155,914           | 1,155,914           | -                 | -                   | -                   |
| Customer deposits              | -                    | -                   | -                   | 129,427           | -                   | 129,427             |
| Debt service reserve           | -                    | -                   | -                   | -                 | 5,140,063           | 5,140,063           |
| <b>Total restricted assets</b> | <b>\$ 10,000</b>     | <b>\$ 1,155,914</b> | <b>\$ 1,165,914</b> | <b>\$ 129,427</b> | <b>\$ 5,140,063</b> | <b>\$ 5,269,490</b> |

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.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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 prior to 2012. The risk financing fund was accounted for in the Dental/Vision Insurance Fund, an internal service fund, where assets are set aside for claim settlements. A premium was charged to each fund that accounts for dental and vision coverage. The total charge allocated to each of the funds was calculated using trends in actual claims experience. The plan was administered by a third party. Provisions were also made for unexpected and unusual claims. The City entered into a fully insured plan in January of 2012 and, therefore, closed out the fund after all pending claims were paid in 2012.

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:

|  | 2011      | 2012     |
|--|-----------|----------|
| Unpaid claims, beginning of fiscal year  | \$ -      | \$ -     |
| Incurred claims and changes in estimates | 619,017   | 27,755   |
| Claim payments                           | (619,017) | (27,755) |
| Unpaid claims, end of fiscal year        | \$ -      | \$ -     |

Job Related Illnesses or Injuries to Employees

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

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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

|  | 2011      | 2012      |
|--|-----------|-----------|
| Unpaid claims, beginning of fiscal year  | \$ -      | \$ -      |
| Incurred claims and changes in estimates | 252,534   | 419,661   |
| Claim payments                           | (252,534) | (419,661) |
| Unpaid claims, end of fiscal year        | \$ -      | \$ -      |

Unemployment Compensation Benefits

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

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

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

|  | 2011     | 2012     |
|--|----------|----------|
| Unpaid claims, beginning of fiscal year  | \$ -     | \$ -     |
| Incurred claims and changes in estimates | 66,256   | 68,481   |
| Claim payments                           | (66,256) | (68,481) |
| 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 \$661,636. No amount was due as of the balance sheet date.

C. Subsequent Events

Parks Department

In 2013, the Parks Department of the City of Lafayette ceased operations of the Municipal Golf Course. The course, which sits on in a flood plain, closed for the better part of the 2010 and 2011 season due to flooding. The course was opened in 2012 and although the volume of play was at levels anticipated we did lose market share. Since the funds to operate the course were generated entirely from golf fees, the decision was made to close.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Utility Projects

On February 27, 2013, the City closed a revenue bond financing for the Durkees Run CSO project. This bond will finance the elimination of 1,000 acres of combined sewer overflow areas mandated by IDEM. The project has a mandatory completion date of 2015. Phase I and II will cost approximately \$22,500,000. Phase III will be an estimated \$7,500,000. Bowen Engineering has been awarded the Design Build contract under an Indiana Guaranteed Savings Contract covered by Indiana Code 36-1-12. This type of contract has many advantages including: the City has more control over the project, a guaranteed maximum price with no change orders, shifts the risk to the design build team, allows for open book pricing and savings must be greater than the cost over 20 years. Additionally the savings must be documented by the Indiana Department of Energy per the Indiana Code. The project is moving along on schedule as Phase I is complete and Phase II is approximately 25 percent complete.

In May 2013, the City refinanced bonds with an approximate value of \$60,000,000. The resulting favorable interest rate on the refinancing resulted in an approximate NPV savings of \$6,000,000.

On June 4, 2013, Final completion of the Cincinnati Street tunnel extension, a 300' addition to a Storm Water collection tunnel was accepted. The project was substantially completed in 2012. The project amount of \$1,060,007 was paid from cash balances budgeted from the Water Pollution Control fund.

Road Projects

In 2012, Sagamore Parkway, the U.S. 52 bypass, and Indiana 26 from I-65 to the Wabash River became part of the street system of the City. The City received \$21,000,000 from INDOT to repave Sagamore Parkway and upgrade the signal system on Highway 26. The signal project has been completed. The engineering is nearly finished with the 1<sup>st</sup> phase of paving project. Once completed, bidding for the 1<sup>st</sup> phase will take place and engineering for the second phase will begin. Paving will begin when the storm water and sanitary sewer flow is separated with the completion of Phase 2 of the Durkees Run Utility project.

March 26, 2013, the Engineering Department recommended approval of a \$2,993,317 contract to begin the Veteran's Memorial Parkway project Phase II from Concord Rd. to U.S. 52. This project will improve the road, traffic light system, and trails along this important industrial corridor. This project is being paid by cash balances budgeted from the SE TIF District.

At the May 7, 2013 meeting of the Board of Works, the Maple Point extension road project, an 80/20 federally funded project, had a supplement approved. This project came in under budget and the remainder of that savings, \$1,840,000, was reallocated by the county-wide Traffic Improvement Planning Committee to the Meyer pedestrian bridge project and the SR 38 sidewalk project. Engineering work is being completed on both of those projects.

Economic Development

In July 2013, the City sold \$1,500,000 of bonds to build a co-working space for entrepreneurial ventures in the downtown area. This center will follow a formula used throughout the country and state with great success to assist fledging businesses in their effort to develop and bring their products and or services to market. This is a taxable bond and will be repaid in 3 years from TIF revenues.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. 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 \$2,655,000.

E. 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. The City, the State, or any political subdivision is not 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 \$1,390,000.

F. City/County Interlocal Agreement

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

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

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

Under the terms of the agreement, the County has established a Southeast Industrial TIF Fund to account for the funds used to pay for the public improvements which will be constructed and administered by the City. The payments for these projects are initiated by the City then reviewed, approved, and paid by the County. At December 31, 2012, the Southeast Industrial TIF Fund had \$1,753,656 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, 2012, the TIF County's South East Fund had \$1,155,914 held for these capital projects.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

In addition to the pension benefits described below, effective January 1, 2004, the City provides a portion of postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the primary government. The City is a member of the Indiana Association of Cities and Towns Medical Trust whose health plans are operated under a self-insured arrangement. 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.

Funding Policy

Currently, 30 employees meet the above mentioned eligibility requirements. The primary government provides 100 percent of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2012, expenditures of \$1,100 for police, \$4,600 for fire, and \$1,000 for water and water pollution control were recognized for postemployment benefits.

Annual OPEB Cost and Net OPEB Obligation

This Other Postemployment Benefit (OPEB) cost had not been calculated prior to 2012. The City employed an actuarial firm to complete the GASB 45 required calculations and these calculations determined an Annual Required Contribution (ARC) in accordance with the parameters of the GASB statement. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table, broken out by Governmental and Business-type, shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan and the net obligation at the end of the year. According to GASB 45 regarding OPEB:

|  | <u>Governmental</u> | <u>Business-type</u> | <u>Totals</u>     |
|--|---------------------|----------------------|-------------------|
| Annual required contribution                           | \$ 266,790          | \$ 533,581           | \$ 800,371        |
| Interest to end of year                                | 12,006              | 24,011               | 36,017            |
| Adjustment to annual required contribution             | <u>-</u>            | <u>-</u>             | <u>-</u>          |
| Annual OPEB cost                                       | 278,796             | 557,592              | 836,388           |
| Estimated annual employer contribution for pay-go cost | (53,501)            | (107,003)            | (160,504)         |
| Estimated annual employer contribution for prefunding  | <u>-</u>            | <u>-</u>             | <u>-</u>          |
| Increase (decrease) in OPEB costs                      | 225,295             | 450,589              | 675,884           |
| Net OPEB obligation, beginning of year                 | <u>-</u>            | <u>-</u>             | <u>-</u>          |
| Net OPEB obligation, end of year                       | <u>\$ 225,295</u>   | <u>\$ 450,589</u>    | <u>\$ 675,884</u> |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

In a similar fashion the City's annual OPEB cost, the percentage of the annual OPEB cost contributed by the City and the net OPEB obligation for 2012 is shown in the following table:

|                                    | <u>Year Ending</u> | <u>Annual<br/>OPEB<br/>Cost</u> | <u>of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net<br/>OPEB<br/>Obligation</u> |
|------------------------------------|--------------------|---------------------------------|--|------------------------------------|
| Other Postemployee Benefits (OPEB) | 12-31-12           | \$ <u>836,388</u>               | 19.2%  | \$ <u>675,884</u>                  |

(2012 first year of actuarial valuation)

Funding Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was unfunded. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. This includes assumptions about future employment, mortality, and the healthcare cost trend. These assumptions are subject to continual revision as actual results are compared with past expectations and new estimates are determined.

Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques that are designed to deduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations. These assumptions include an annual healthcare cost trend rate of 10 percent initially, reduced to an ultimate rate of 5 percent after 10 years, and an inflation rate of 3 percent. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as a level percentage of pay over 30 years based on an open group.

The City's actuarial report of other postemployment benefits is available by contacting the City of Lafayette Controller's office.

H. Pension Plans

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

a. Indiana Public Retirement System

Plan Description

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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Indiana Public Retirement System  
One North Capital, Suite 001  
Indianapolis, IN 46204  
Ph. (317) 526-1687

Funding Policy and Annual Pension Cost

INPRS members are required to contribute 3 percent of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 6.75 percent of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees, of INPRS.

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.

On Behalf Payments

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

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

c. 1937 Firefighters' Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

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

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.

On Behalf Payments

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

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2013, was comprised of the following:

|   | <u>1925 Police<br/>Officers'<br/>Pension</u> | <u>1937<br/>Firefighters'<br/>Pension</u> |
|---|--|---|
| Retires and beneficiaries currently receiving benefits          | 51   | 85  |
| Terminated employees entitled to but not yet receiving benefits | -  | -   |
| Current active employees  | -  | -   |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

|  | Annual Pension Cost and Net Pension Obligation |                                    |                                  |
|--|--|------------------------------------|----------------------------------|
|  | City<br>PERF                                   | 1925 Police<br>Officers<br>Pension | 1937<br>Firefighters'<br>Pension |
| Annual required contribution                               | \$ 1,303,151                                   | \$ 1,478,100                       | \$ 2,508,500                     |
| Interest on net pension obligation                         | 12,808   | 420,512                            | 966,486                          |
| Adjustment to annual required contribution                 | (14,745)                                       | (569,642)                          | (1,309,240)                      |
| Annual pension cost  | 1,301,214                                      | 1,328,970                          | 2,165,746                        |
| Contributions made   | 960,581  | 1,449,580                          | 2,749,007                        |
| Increase (decrease) in net pension obligation              | 340,633  | (120,610)                          | (583,261)                        |
| Net pension obligation (asset), beginning of year 06-30-11 | 182,969  | 7,008,536                          | 16,108,098                       |
| Net pension obligation, end of year 06-30-12               | <u>\$ 523,602</u>                              | <u>\$ 6,887,926</u>                | <u>\$ 15,524,837</u>             |

| Actuarial Methods               | City<br>PERF   | 1925 Police<br>Officers<br>Pension                 | 1937<br>Firefighters'<br>Pension                   |
|---------------------------------|--|--|--|
| Contribution rates:             |  |  |  |
| Government                      | 3%   | 0%   | 0%   |
| Plan members                    | 3%   | 0%   | 0%   |
| Actuarial valuation date        | 06-30-12   | 01-01-12   | 01-01-12   |
| Actuarial cost method           | Entry age normal cost  | Entry age normal cost                              | Entry age normal cost                              |
| 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          | 4 year smoothing of gains/loss on market value with a 20% corridor | 4 year phase in of unrealized and realized capital | 4 year phase in of unrealized and realized capital |

| Actuarial Assumptions                       |                             |                     |                     |
|---|-----------------------------|---------------------|---------------------|
| Investment rate of return (Net of Expenses) | 6.75%                       | 6.00%               | 6.00%               |
| Projected future salary increases           | 3.25% to 4.50%              | 3.25%               | 3.25%               |
| Cost-of-living adjustments                  | 1.00%                       | 2.25% & 3.25%       | 2.25% & 3.25%       |
| Retirement                                  | Based on 2005-10 experience | Based on 1976 study | Based on 1976 study |

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| Three Year Trend Information          |             |                                 |                                     |                              |
|---------------------------------------|-------------|---------------------------------|-------------------------------------|------------------------------|
|                                       | Year Ending | Annual<br>Pension Cost<br>(APC) | Percentage<br>of APC<br>Contributed | Net<br>Pension<br>Obligation |
| INPRS                                 | 06-30-10    | \$ 941,085                      | 85.0%                               | \$ (188,116)                 |
|                                       | 06-30-11    | 1,223,375                       | 70.0%                               | 182,969                      |
|                                       | 06-30-12    | 1,301,214                       | 74.0%                               | 523,602                      |
| 1925 Police Officers'<br>Pension Plan | 12-31-10    | 1,474,500                       | 95.0%                               | 7,809,388                    |
|                                       | 12-31-11    | 1,528,600                       | 95.0%                               | 7,008,536                    |
|                                       | 12-31-12    | 1,328,970                       | 109.0%                              | 6,887,926                    |
| 1937 Firefighters'<br>Pension Plan    | 12-31-10    | 2,337,000                       | 101.0%                              | 16,038,650                   |
|                                       | 12-31-11    | 2,398,900                       | 97.0%                               | 16,108,098                   |
|                                       | 12-31-12    | 2,165,746                       | 127.0%                              | 15,524,837                   |

Funded status and Funding Progress for the Above Plans

The funded status of each plan as of the most recent actuarial valuation date is as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Excess of<br>Assets Over<br>(Unfunded)<br>AAL<br>(a-b) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | Excess<br>(Unfunded)<br>AAL as a<br>Percentage<br>of Covered<br>Payroll<br>((a-b)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
|--------------------------------|--|---|--|--------------------------|---------------------------|--|

Public Employees Retirement Fund

|          |              |               |                 |     |               |       |
|----------|--------------|---------------|-----------------|-----|---------------|-------|
| 06-30-12 | \$ 9,570,075 | \$ 20,026,771 | \$ (10,456,696) | 48% | \$ 14,536,933 | (72%) |
|----------|--------------|---------------|-----------------|-----|---------------|-------|

1925 Police Officers' Pension Plan

|          |   |            |              |    |   |    |
|----------|---|------------|--------------|----|---|----|
| 01-01-12 | - | 18,185,200 | (18,185,200) | 0% | - | 0% |
|----------|---|------------|--------------|----|---|----|

1937 Firefighters' Pension Plan

|          |   |            |              |    |   |    |
|----------|---|------------|--------------|----|---|----|
| 01-01-12 | - | 30,862,600 | (30,862,600) | 0% | - | 0% |
|----------|---|------------|--------------|----|---|----|

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 Retirement System (INPRS) 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.

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

Indiana Public Retirement System  
One North Capital, Suite 001  
Indianapolis, IN 46204  
Ph. (317) 526-1687

Funding Policy

Plan members are required to contribute 6 percent of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate is 19.5 percent 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 INPRS.

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) | Excess of Assets Over (Unfunded) AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Shortfall) AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------|-------------------------------|---------------------------------------|--|--------------------|---------------------|---|
| 06-30-09                 | \$ 13,273,099                 | \$ 15,460,528                         | \$ (2,187,429)                             | 86%                | \$ 13,628,273       | (16%)   |
| 06-30-10                 | 11,811,723                    | 17,068,590                            | (5,256,867)                                | 69%                | 13,307,268          | (40%)   |
| 06-30-11                 | 10,329,132                    | 18,470,075                            | (8,140,943)                                | 56%                | 13,875,392          | (59%)   |
| 06-30-12                 | 9,570,075                     | 20,026,771                            | (10,456,695)                               | 48%                | 14,536,933          | (72%)   |

1925 Police Officers' Pension Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets Over (Unfunded) AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Shortfall) AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------|-------------------------------|---------------------------------------|--|--------------------|---------------------|---|
| 01-01-07                 | \$ 861,582                    | \$ 21,078,300                         | \$ (20,216,718)                            | 4%                 | \$ 95,400           | (21,192%)   |
| 01-01-08                 | 985,499                       | 20,166,600                            | (19,181,101)                               | 5%                 | -                   | 0%  |
| 01-01-09                 | 470,188                       | 22,762,300                            | (22,292,112)                               | 2%                 | -                   | 0%  |
| 01-01-10                 | -                             | 21,281,700                            | (21,281,700)                               | 0%                 | -                   | 0%  |
| 01-01-11                 | -                             | 21,111,900                            | (21,111,900)                               | 0%                 | -                   | 0%  |
| 01-01-12                 | -                             | 18,185,200                            | (18,185,200)                               | 0%                 | -                   | 0%  |

1937 Firefighters' Pension Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets Over (Unfunded) AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------|-------------------------------|---------------------------------------|--|--------------------|---------------------|--|
| 01-01-07                 | \$ 1,562,361                  | \$ 38,678,700                         | \$ (37,116,339)                            | 4%                 | \$ 572,700          | (6,481%)   |
| 01-01-08                 | 1,610,698                     | 37,090,000                            | (35,479,302)                               | 4%                 | 248,200             | (14,295%)  |
| 01-01-09                 | 558,942                       | 33,879,700                            | (33,320,758)                               | 2%                 | -                   | 0%   |
| 01-01-10                 | -                             | 34,162,900                            | (34,162,900)                               | 0%                 | 102,300             | 33,395%  |
| 01-01-11                 | -                             | 33,683,000                            | (33,683,000)                               | 0%                 | 106,300             | 31,674%  |
| 01-01-12                 | -                             | 30,862,600                            | (30,862,600)                               | 0%                 | -                   | 0%   |

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

1925 Police Officers' Pension Plan

| Year<br>Ending | Annual<br>Required<br>Contribution<br>(ARC) | Percentage of ARC<br>Contributed |       |
|----------------|---|----------------------------------|-------|
|                |   | City                             | State |
| 12-31-10       | \$ 1,617,800                                | 0%                               | 95%   |
| 12-31-11       | 1,682,200                                   | 0%                               | 87%   |
| 12-31-12       | 1,478,100                                   | 0%                               | 98%   |

1937 Firefighters' Pension Plan

| Year<br>Ending | Annual<br>Required<br>Contribution<br>(ARC) | Percentage of ARC<br>Contributed |       |
|----------------|---|----------------------------------|-------|
|                |   | City                             | State |
| 12-31-10       | \$ 2,629,600                                | 0%                               | 90%   |
| 12-31-11       | 2,714,500                                   | 0%                               | 85%   |
| 12-31-12       | 2,508,500                                   | 0%                               | 110%  |

CITY OF LAFAYETTE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULES  
 GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2012

|   | General Fund      |                   |                              |                                  | Highway Fund (MVH & LRS)<br>Major Special Revenue Fund |                  |                              |  | Park Fund (all Park & Rec Funds)<br>Major Special Revenue Fund |                  |                              |  |
|---|-------------------|-------------------|------------------------------|----------------------------------|--|------------------|------------------------------|--|--|------------------|------------------------------|--|
|   | Budgeted Amounts  |                   | Actual<br>Budgetary<br>Basis | Variance<br>With Final<br>Budget | Budgeted Amounts                                       |                  | Actual<br>Budgetary<br>Basis | Variance<br>With Final<br>Budget<br>Favorable<br>(Unfavorable) | Budgeted Amounts   |                  | Actual<br>Budgetary<br>Basis | Variance<br>With Final<br>Budget<br>Favorable<br>(Unfavorable) |
|   | Original          | Final             | Amounts                      |                                  | Original   | Final            | Amounts                      |  | Original   | Final            | Amounts                      |  |
| <b>Revenues:</b>                            |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Taxes:                                      |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Property Taxes                              | \$22,491,342      | \$22,491,342      | \$19,182,701                 | (\$3,308,641)                    | \$2,625,137  | \$2,625,137      | \$2,206,920                  | (\$418,217)  | \$4,676,302  | \$4,676,302      | \$3,319,167                  | (\$1,357,135)  |
| Licenses and permits                        | 327,000           | 327,000           | 185,238                      | (141,762)                        | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Intergovernmental                           | 6,760,900         | 6,760,900         | 7,598,296                    | 837,396                          | 3,218,600  | 3,218,600        | 3,336,675                    | 118,075  | 302,519  | 302,519          | 277,827                      | (24,692)   |
| Charges for services                        | 3,275,000         | 3,275,000         | 398,740                      | (2,876,260)                      | -  | -                | 27,251                       | 27,251   | 1,429,988  | 1,429,988        | 1,422,420                    | (7,568)  |
| Fines and forfeits                          | 131,000           | 131,000           | 134,293                      | 3,293                            | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Other                                       | 553,000           | 553,000           | 3,103,496                    | 2,550,496                        | -  | -                | 79,676                       | 79,676   | 129,032  | 129,032          | 130,541                      | 1,509  |
| <b>TOTAL REVENUES</b>                       | <b>33,538,242</b> | <b>33,538,242</b> | <b>30,602,764</b>            | <b>(2,935,478)</b>               | <b>5,843,737</b>                                       | <b>5,843,737</b> | <b>5,650,522</b>             | <b>(193,215)</b>   | <b>6,537,841</b>   | <b>6,537,841</b> | <b>5,149,955</b>             | <b>(1,387,886)</b>   |
| <b>Expenditures:</b>                        |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Current:                                    |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| General government:                         |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Personal Services                           | 1,423,230         | 1,431,692         | 1,399,493                    | 32,199                           | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Supplies                                    | 111,220           | 111,220           | 120,516                      | (9,296)                          | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Other Srv & Chrgs                           | 1,308,575         | 1,313,075         | 1,521,520                    | (208,445)                        | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Capital Outlays                             | -                 | -                 | 916                          | (916)                            | -  | -                | -                            | -  | -  | -                | -                            | -  |
| <b>Total general government</b>             | <b>2,843,025</b>  | <b>2,855,987</b>  | <b>3,042,445</b>             | <b>(186,458)</b>                 | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   |
| Public safety:                              |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Personal Services                           | 25,032,125        | 25,085,807        | 24,615,170                   | 470,637                          | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Supplies                                    | 928,750           | 934,184           | 736,231                      | 197,953                          | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Other Srv & Chrgs                           | 370,800           | 370,800           | 316,527                      | 54,273                           | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Capital Outlays                             | 46,000            | 46,000            | 56,199                       | (10,199)                         | -  | -                | -                            | -  | -  | -                | -                            | -  |
| <b>Total public safety</b>                  | <b>26,377,675</b> | <b>26,436,791</b> | <b>25,724,127</b>            | <b>712,664</b>                   | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   |
| Highways and streets:                       |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Personal Services                           | -                 | -                 | -                            | -                                | 3,742,875  | 3,743,735        | 3,216,280                    | 527,455  | -  | -                | -                            | -  |
| Supplies                                    | -                 | -                 | -                            | -                                | 552,900  | 577,173          | 703,944                      | (126,771)  | -  | -                | -                            | -  |
| Other Srv & Chrgs                           | -                 | -                 | -                            | -                                | 285,600  | 1,485,600        | 1,506,408                    | (20,808)   | -  | -                | -                            | -  |
| Capital Outlays                             | -                 | -                 | -                            | -                                | 150,000  | 150,000          | 24,289                       | 125,711  | -  | -                | -                            | -  |
| <b>Total highways and streets</b>           | <b>-</b>          | <b>-</b>          | <b>-</b>                     | <b>-</b>                         | <b>4,731,375</b>                                       | <b>5,956,508</b> | <b>5,450,921</b>             | <b>505,587</b>   | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   |
| Sanitation:                                 |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Personal Services                           | 1,516,800         | 1,516,800         | 1,497,341                    | 19,459                           | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Supplies                                    | 333,500           | 333,500           | 469,395                      | (135,895)                        | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Other Srv & Chrgs                           | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | -  | -                | -                            | -  |
| Capital Outlays                             | 7,400             | 7,400             | 5,991                        | 1,409                            | -  | -                | -                            | -  | -  | -                | -                            | -  |
| <b>Total sanitation</b>                     | <b>1,857,700</b>  | <b>1,857,700</b>  | <b>1,972,727</b>             | <b>(115,027)</b>                 | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   |
| Culture and recreation:                     |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Personal Services                           | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | 3,046,212  | 3,046,212        | 2,890,030                    | 156,182  |
| Supplies                                    | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | 613,273  | 615,875          | 608,622                      | 7,253  |
| Other Srv & Chrgs                           | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | 1,435,269  | 1,444,021        | 1,393,603                    | 50,418   |
| Capital Outlays                             | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | 21,425   | 21,425           | 24,881                       | (3,456)  |
| <b>Total culture and recreation</b>         | <b>-</b>          | <b>-</b>          | <b>-</b>                     | <b>-</b>                         | <b>-</b>   | <b>-</b>         | <b>-</b>                     | <b>-</b>   | <b>5,116,179</b>   | <b>5,127,533</b> | <b>4,917,136</b>             | <b>210,397</b>   |
| Debt Service:                               |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Principal                                   | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | 720,000  | 720,000          | 720,000                      | -  |
| <b>TOTAL EXPENDITURES</b>                   | <b>31,078,400</b> | <b>31,150,478</b> | <b>30,739,299</b>            | <b>411,179</b>                   | <b>4,731,375</b>                                       | <b>5,956,508</b> | <b>5,450,921</b>             | <b>505,587</b>   | <b>5,836,179</b>   | <b>5,847,533</b> | <b>5,637,136</b>             | <b>210,397</b>   |
| Other financing sources (uses):             |                   |                   |                              |                                  |  |                  |                              |  |  |                  |                              |  |
| Operating transfers in                      | -                 | -                 | 81,487                       | (81,487)                         | -  | -                | 10,935                       | (10,935)   | -  | -                | 4,861                        | (4,861)  |
| Bond proceeds                               | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | -  | -                | 5,982,117                    | (5,982,117)  |
| Bonds refunding payoffs                     | -                 | -                 | -                            | -                                | -  | -                | -                            | -  | -  | -                | (5,718,393)                  | 5,718,393  |
| <b>Total other financing sources (uses)</b> | <b>-</b>          | <b>-</b>          | <b>81,487</b>                | <b>(81,487)</b>                  | <b>-</b>   | <b>-</b>         | <b>10,935</b>                | <b>(10,935)</b>  | <b>-</b>   | <b>-</b>         | <b>168,585</b>               | <b>(168,585)</b>   |
| <b>Net change in fund balances</b>          | <b>2,459,842</b>  | <b>2,387,764</b>  | <b>(55,048)</b>              | <b>(2,442,812)</b>               | <b>1,112,362</b>                                       | <b>(112,771)</b> | <b>210,536</b>               | <b>323,307</b>   | <b>701,662</b>   | <b>690,308</b>   | <b>(318,596)</b>             | <b>(1,008,904)</b>   |
| Fund balances - beginning                   | (510,472)         | (510,472)         | (510,472)                    | -                                | 1,600,716  | 1,600,716        | 1,600,716                    | -  | 685,649  | 685,649          | 685,649                      | -  |
| Fund balances - December 31                 | \$ 1,949,370      | \$ 1,877,292      | \$ (565,520)                 | \$ (2,442,812)                   | \$ 2,713,078   | \$ 1,487,945     | \$ 1,811,252                 | \$ 323,307   | \$ 1,387,311   | \$ 1,375,957     | \$ 367,053                   | \$ (1,008,904)   |

CITY OF LAFAYETTE  
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS OVER ACCOUNTING***

Internal controls for the recording and accounting for the financial activities were insufficient for the following areas:

1. Capital assets and construction in progress - There was inadequate segregation of duties pertaining to capital assets and construction in progress accounting. The capital asset accounting package is not integrated into the general ledger accounting system. The Administrative Project Coordinator is responsible for maintaining the capital assets and construction in progress accounting. She is also responsible for the reconciliation of the capital assets and construction in progress accounting to the general ledger at the year end. Adequate internal controls would require that there be separate individuals maintaining the capital asset records and reconciling those same records to the general ledger.
2. Segregation of duties over the adjusting and correcting entries required during year-end closing and the development of the financial statements was not adequately documented. There should be adequate documentation of the segregation of duties ensuring that all closing entries and the development of the financial statements has adequate oversight by governance, management or other designated individuals.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

***Report on Compliance for Each Major Federal Program***

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Basis for Qualified Opinion on ARRA – Energy Efficiency  
And Conservation Block Grant Program (EECBG)***

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding CFDA 81.128 EECBG Project DE-SC0003233 as described in Findings 2012-7 for cash management, 2012-8 for Davis-Bacon Act, 2012-9 for reporting and EECBG Project DE-EE0003577-001 as described in Findings 2012-10 for reporting, 2012-12 for Davis-Bacon Act, 2012-13 for procurement, and 2012-14 for sub-recipient monitoring. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

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

***Qualified Opinion on ARRA – Energy Efficiency  
and Conservation Block Grant Program (EECBG)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG) for the year ended December 31, 2012.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-3 and 2012-5. Our opinion on each major federal program is not modified with respect to these matters.

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

***Report on Internal Control Over Compliance***

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that

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

material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2, 2012-4, 2012-6, and 2012-11 to be material weaknesses.

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

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



Bruce Hartman  
State Examiner

September 16, 2013

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

CITY OF LAFAYETTE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ending December 31, 2012

| Federal Grantor Agency/Pass-Through Entity<br>Cluster Title/Program Title/Project Title    | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Total<br>Federal Awards<br>Expended |
|--|---------------------------|--|-------------------------------------|
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>                                    |                           |  |                                     |
| Direct Grant   |                           |  |                                     |
| CDBG - Entitlement Grants Cluster  |                           |  |                                     |
| Community Development Block Grants/ Entitlement Grants                                     | 14.218                    | B09-MC-18008   | \$ 39,024                           |
|  |                           | B10-MC-18008   | 166,379                             |
|  |                           | B11-MC-18008   | 524,766                             |
|  |                           | B12-MC-18008   | <u>93,136</u>                       |
| Total for program  |                           |  | <u>823,305</u>                      |
| Total for Cluster  |                           |  | <u>823,305</u>                      |
| Pass-Through Indiana Housing and Community Development Authority                           |                           |  |                                     |
| Community Development Block Grant - State-Administered CDBG Cluster                        |                           |  |                                     |
| Community Development Block Grants/State's Program and<br>Non-Entitlement Grants in Hawaii | 14.228                    | NSP1-009-015   | <u>863,630</u>                      |
| Direct Grant   |                           |  |                                     |
| HOME Investment Partnerships Program   |                           |  |                                     |
|  | 14.239                    | M08-DC-180212  | 98,106                              |
|  |                           | M09-DC-180212  | 35,459                              |
|  |                           | M10-DC-180212  | 286,498                             |
|  |                           | M11-DC-180212  | 201,044                             |
|  |                           | M12-DC-180212  | <u>45,528</u>                       |
| Total for Program  |                           |  | <u>666,635</u>                      |
| Pass-Through Indiana Housing and Community Development Authority                           |                           |  |                                     |
| HOME Investment Partnerships Program   |                           |  |                                     |
|  | 14.239                    | TB-008-001   | <u>64,773</u>                       |
| Total for program  |                           |  | <u>731,408</u>                      |
| Shelter Plus Care  |                           |  |                                     |
|  | 14.238                    | SC-008-010   | <u>145,945</u>                      |
| Total for federal grantor agency   |                           |  | <u>2,564,288</u>                    |
| <u>U.S. DEPARTMENT OF INTERIOR</u>   |                           |  |                                     |
| Pass-Through Indiana Department of Natural Resources                                       |                           |  |                                     |
| Historic Preservation Funds Grants-In-Aid  |                           |  |                                     |
| Creation of Resource Libraries   | 15.904                    | 18-07-22618-CA-6<br>31921-SCH-1                            | 576                                 |
|  |                           |  | <u>1,000</u>                        |
| Total for program  |                           |  | <u>1,576</u>                        |
| Total for federal grantor agency   |                           |  | <u>1,576</u>                        |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u>  |                           |  |                                     |
| Pass-Through Indiana Department of Natural Resources                                       |                           |  |                                     |
| Urban and Community Forestry Program   |                           |  |                                     |
|  | 10.675                    | 11-DG-11420004-230   | <u>10,575</u>                       |
| Total for federal grantor agency   |                           |  | <u>10,575</u>                       |

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF LAFAYETTE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ending December 31, 2012  
(Continued)

| Federal Grantor Agency/Pass-Through Entity<br>Cluster Title/Program Title/Project Title                     | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Total<br>Federal Awards<br>Expended |
|---|---------------------------|--|-------------------------------------|
| <u>U.S. DEPARTMENT OF JUSTICE</u>   |                           |  |                                     |
| Direct Grant  |                           |  |                                     |
| JAG Program Cluster   |                           |  |                                     |
| ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/<br>Grants to Units Of Local Government | 16.804                    | 2011-DJ-BX-31111   | <u>42,978</u>                       |
| Total for program   |                           |  | <u>42,978</u>                       |
| Total for cluster   |                           |  | <u>42,978</u>                       |
| Direct Grant  |                           |  |                                     |
| Community Capacity Development Office   | 16.595                    | 2010-WS-QX-WESO89  | <u>54,574</u>                       |
| ARRA - Public Safety Partnership and Community Policing Grants  | 16.710                    | 2009-RK-WX-0353  | <u>263,699</u>                      |
| Total for federal grantor agency  |                           |  | <u>361,251</u>                      |
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u>  |                           |  |                                     |
| Pass-Through Indiana Department of Transportation   |                           |  |                                     |
| Highway Planning and Construction Cluster   |                           |  |                                     |
| Highway Planning and Construction   | 20.205                    | A249-10-320939   | 250,255                             |
|   |                           | A249-10-320704   | 43,193                              |
|   |                           | A249-11-320894   | 7,723                               |
|   |                           | A249-12-320701   | 5,671                               |
|   |                           | A249-11-320860   | <u>307,739</u>                      |
| Total for program   |                           |  | <u>614,581</u>                      |
| Recreational Trails Program   | 20.219                    | A249-10-322061   | 16,904                              |
|   |                           | A249-12-320079   | <u>104,044</u>                      |
| Total for program   |                           |  | <u>120,948</u>                      |
| Total for cluster   |                           |  | <u>735,529</u>                      |
| Pass-Through Indiana Criminal Justice Institute   |                           |  |                                     |
| Highway Safety Cluster  |                           |  |                                     |
| State and Community Highway Safety  | 20.600                    | D3-13-7376   | 6,967                               |
|   |                           | D3-12-6427   | 48,719                              |
|   |                           | D3-12-6236   | <u>11,560</u>                       |
| Total for Program   |                           |  | <u>67,245</u>                       |
| Alcohol Impaired Driving Countermeasures Incentive Grant I  | 20.601                    | K8-2011-03-02-07   | 19,751                              |
|   |                           | K8-2012-03-03-30   | 24,808                              |
|   |                           | D3-13-7267   | 8,057                               |
|   |                           | D3-13-7548   | <u>1,595</u>                        |
| Total for program   |                           |  | <u>54,211</u>                       |
| Total for cluster   |                           |  | <u>121,456</u>                      |
| Total for federal grantor agency  |                           |  | <u>856,985</u>                      |

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF LAFAYETTE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ending December 31, 2012  
(Continued)

| Federal Grantor Agency/Pass-Through Entity<br>Cluster Title/Program Title/Project Title   | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Total<br>Federal Awards<br>Expended |
|---|---------------------------|--|-------------------------------------|
| <u>ENVIRONMENTAL PROTECTION AGENCY</u>  |                           |  |                                     |
| Pass-Through Indiana Department of Environmental Protection<br>Capitalization Grants for Clean Water State Revolving Funds      | 66.458                    | 2W-00E73001-0  | <u>865</u>                          |
| Total for federal grantor agency  |                           |  | <u>865</u>                          |
| <u>U.S. DEPARTMENT OF ENERGY</u>  |                           |  |                                     |
| Direct Grant  |                           |  |                                     |
| ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)   | 81.128                    | DE-SC0003233 (ARRA)  | 227,362                             |
| Pass-Through The City of Indianapolis<br>ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)                  |                           | DE-EE0003577-001 (ARRA)                                    | <u>890,952</u>                      |
| Total for Program   |                           |  | <u>1,118,314</u>                    |
| Total for federal grantor agency  |                           |  | <u>1,118,314</u>                    |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>   |                           |  |                                     |
| Pass-Through Indiana Department of Homeland Security<br>Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036                    | 385PA4058000000  | 16,436                              |
| Direct Grant  |                           |  |                                     |
| Assistance to Firefighters Grant  | 97.044                    | EMW-2011-FP-00894  | <u>11,994</u>                       |
| Total for federal grantor agency  |                           |  | <u>28,430</u>                       |
| Total federal awards expended   |                           |  | <u>\$ 4,942,284</u>                 |

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF LAFAYETTE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***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.

CITY OF LAFAYETTE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

|   |               |
|---|---------------|
| Type of auditor's report issued:                      | Unmodified    |
| Internal control over financial reporting:            |               |
| Material weaknesses identified?                       | yes           |
| Significant deficiencies identified?                  | none reported |
| Noncompliance material to financial statements noted? | no            |

Federal Awards:

|  |                            |
|--|----------------------------|
| Internal control over major programs:  |                            |
| Material weaknesses identified?  | Yes                        |
| Significant deficiencies identified?   | none reported              |
| Type of auditor's report issued on compliance for major programs:<br>Efficiency and Conservation Block Grant Program (EECBG)<br>Unmodified for all other major programs. | Modified for ARRA - Energy |
| Any audit findings disclosed that are required to be reported in<br>accordance with Section 510(a) of OMB Circular A-133?  | yes                        |

Identification of Major Programs:

| CFDA<br>Number | Name of Federal Program or Cluster                                       |
|----------------|--|
| 14.239         | CDBG – Entitlement Grants Cluster  |
| 81.128         | Home Investment Partnerships Program                                     |
|                | ARRA - Energy Efficiency and Conservation<br>Block Grant Program (EECBG) |

|  |           |
|--|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee?                                   | yes       |

Section II – Financial Statement Findings

**FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

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

1. Lack of Segregation of Duties: Control activities should be selected, developed and documented at various levels of the accounting for capital assets and construction work in progress to reduce risks to the achievement of financial reporting objectives. The City has

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

not documented the separated incompatible activities related to the accounting for the balances, purchases, disposals, and related depreciation of capital assets and construction work in progress. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

2. **Monitoring of Controls:** Effective internal control over financial reporting requires the City Council to monitor and assess the quality of the City's system of internal control. The City Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect and correct material misstatements in a timely manner. Additionally, the City has not established a process to identify or communicate corrective actions to improve controls.

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

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

Section III – Federal Award Findings and Questioned Costs

***FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS***

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Number: B09-MC-18008, B10-MC-18008, B11-MC-18008, B12-MC-18008

Pass-Through Entity: Direct Grant

The management of the City of Lafayette has not adequately documented the establishment of an effective internal control system, which would include segregation of duties, related to the grant agreement and to the following compliance requirement that has a direct and material effect to the program: reporting. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected, and corrected, in a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is

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

accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

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

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

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

***FINDING 2012-3 - COMPLIANCE WITH REPORTING REQUIREMENTS***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Number: B09-MC-18008, B10-MC-18008, B11-MC-18008, B12-MC-18008  
Pass-Through Entity: Direct Grant

The City of Lafayette did not report subawards over \$25,000, under the Federal Funding Accountability and Transparency Act, as required. The prime awardee, the City of Lafayette, is required to file through the FFATA Sub-award Reporting System information on subawards they make. The 2011 and 2012 required reporting was submitted June 2013.

There was one subrecipient that required reporting under the Transparency Act. The Subrecipient Agreement between the City of Lafayette and Tippecanoe County Council on Aging (TCCOA) is for \$50,000 annually. Noncompliance of compliance requirements that have a direct and material effect to the program, could result in the loss of federal funds to the City.

We recommended that the City of Lafayette report the appropriate subawards, as required, under the Transparency Act.

In accordance with 2 CFR Chapter 1, Part 170 REPORTING SUB-AWARD AND EXECUTIVE COMPENSATION INFORMATION, Prime Awardees awarded a federal grant are required to file a FFATA subaward report by the end of the month following the month in which the prime awardees awards any sub-contract equal to or greater than \$25,000. The reporting requirement is as follows:

This requirement is mandatory for both discretionary grants awarded on or after October 1, 2010.

All subaward information must be reported by the prime awardee.

For those new Federal grants as of October 1, 2010, if the initial award is equal to or over \$25,000, reporting of subaward and executive compensation data is required.

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

If the initial award is below \$25,000 but subsequent grant modifications result in a total award equal to or over \$25,000, the award will be subject to the reporting requirements, as of the date the award exceeds \$25,000.

If the initial award equals or exceeds \$25,000 but funding is subsequently de-obligated such that the total award amount falls below \$25,000, the award continues to be subject to the reporting requirements of the Transparency Act and this Guidance.

***FINDING 2012-4 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO HOME INVESTMENT PARTNERSHIP PROGRAM***

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Home Investment Partnership Program

CFDA Number: 14.239

Federal Award Number: M08DC180212; M09DC180212; M10DC180212; M11DC180212; M12DC180212

Pass-Through Entity: Direct Grant

The management of the City of Lafayette has not adequately documented the establishment of an effective internal control system, which would include segregation of duties, related to the grant agreement and to the following compliance requirement that has a direct and material effect to the program: reporting and special tests and provisions. The City did not have procedures in place to monitor the reporting requirement and the special tests and provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

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

OMB Circular A-133, Subpart C, section .300 states in part:

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

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

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

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

***FINDING 2012-5 - COMPLIANCE WITH REPORTING REQUIREMENTS***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Home Investment Partnership Program  
CFDA Number: 14.239  
Federal Award Number and Year (or Other Identifying Number): M08DC180212; M09DC180212;  
M10DC180212; M11DC180212;  
M12DC180212  
Pass-Through Entity: Direct Grant

The City of Lafayette did not report subawards over \$25,000, under the Federal Funding Accountability and Transparency Act, as required. The prime awardee, the City of Lafayette, is required to file through the FFATA Sub-award Reporting System information on subawards they make. The 2011 and 2012 required reporting was submitted June 2013.

In accordance with 2 CFR Chapter 1, Part 170 REPORTING SUB-AWARD AND EXECUTIVE COMPENSATION INFORMATION, Prime Awardees awarded a federal grant are required to file a FFATA subaward report by the end of the month following the month in which the prime awardees awards any subcontract equal to or greater than \$25,000. The reporting requirements are as follows:

This requirement is mandatory for both discretionary grants awarded on or after October 1, 2010.

All subaward information must be reported by the prime awardee.

For those new Federal grants as of October 1, 2010, if the initial award is equal to or over \$25,000, reporting of subaward and executive compensation data is required.

If the initial award is below \$25,000 but subsequent grant modifications result in a total award equal to or over \$25,000, the award will be subject to the reporting requirements, as of the date the award exceeds \$25,000.

If the initial award equals or exceeds \$25,000 but funding is subsequently de-obligated such that the total award amount falls below \$25,000, the award continues to be subject to the reporting requirements of the Transparency Act and this Guidance.

***FINDING 2012-6 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (ARRA)***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number and Year (or Other Identifying Number): DE-SC0003233  
Pass-Through Entity: Direct Grant

The management of the City of Lafayette has not adequately documented the establishment of an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: cash management; Davis-Bacon Act; and reporting. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. For cash management there was a lack of policies and procedures

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in place to monitor cash balances and time the advance request of grant funding to correspond with the disbursement of those funds. For compliance with the Davis-Bacon Act, the City failed to adequately document the monitoring of certified payrolls and the prime contract and sub-contractor's contracts requiring compliance. The City's procedures only required review of certified payrolls for compliance with prevailing wage rates to be performed by the program manager without monitoring by management. For compliance with reporting requirements, the City failed to document oversight of the reporting process as to timeliness, accuracy, and completeness. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

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

OMB Circular A-133, Subpart C, section .300 states in part:

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

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

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

***FINDING 2012-7 - COMPLIANCE WITH CASH MANAGEMENT***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number: DE-SC0003233  
Pass-Through Entity: Direct Grant

The City officials are required to review cash requirements and draw funds as needed, in accordance with federal guidelines. The drawdown requests were filed electronically per the Project Manager's requests to the Controller. The Controller then submitted a drawdown request through the Department of Treasury's ASAP system. The cash balance of the grant exceeded the allowable cash balance based on estimated future requirements for two of the twelve months during the audit period. The drawdown for this audit period was requested when the project contract was signed. The funding was received on January 20, 2012. 13 percent of the drawdown, reimbursed the City for expenditures already made for the project, 48 percent was expended by February 29, 2012, and another 38 percent was expended by March 31, 2012. The remaining balance was not totally expended until September.

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Surplus cash indicates noncompliance with the cash management requirement as set forth by the grant agreement and the Code of Federal Regulations (CFR).

10 CFR 600.121(b)(5) states in part: "Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient."

Per the grant agreement 5(b):

"Requesting Advances: Requests for advances must be made through the ASAP system. You may submit requests as frequently as required to meet your needs to disburse funds for the Federal share of project costs. If feasible, you should time each request so that you receive payment on the same day that you disburse funds for direct project costs and the proportionate share of any allowable indirect costs. If same day transfers are not feasible, advance payments must be as close as is administratively feasible to actual disbursements."

Failure to comply with cash management requirements could result in the City not being considered eligible to receive future federal awards or result in cancellation of contracts and/or the repayment of federal funds to the Department of Energy.

We recommended that the City officials develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds be minimized according to the grant requirements.

***FINDING 2012-8 - COMPLIANCE WITH DAVIS BACON***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant  
CFDA Number: 81.128  
Federal Award Number: DE-SC0003233  
Pass-Through Entity: Direct Grant

Compliance with the Davis-Bacon Act requires the payment of federal prevailing wage rates for construction, repair, or alteration work funded in whole or in part with federal funds. The City, as a grantee, must establish controls for monitoring wages paid by contractors. They must obtain recent and applicable wage rates from the U.S. Department of Labor and incorporated them into the construction contracts and must determine that they are contained in subcontracts.

There was insufficient audit evidence that the City monitored compliance by the primary contractor and subcontractor, with regard to Davis-Bacon Act requirements. The Contractor is responsible for submission of all certified payrolls to the City. This would include theirs and any subcontractor's, to be submitted weekly, for each week in which any contract work was performed. There were two certified payrolls provided for audit for the monthly periods of January 2012 and February 2012. The Contractor provided, with each invoice, a total of project labor costs and a breakdown by employee for their company. The detailed invoice included salary costs for employees not listed on the certified payrolls and for labor costs incurred in March 2012, also not included on any certified payroll. The invoices also included the amounts paid to the subcontractor without any breakdown between materials and labor. Both the primary contractor and the subcontractor were subject to Davis-Bacon. There were significant differences between the detailed invoice and the certified payrolls provided for audit.

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10 CFR § 455.112 states:

"When an energy conservation measure or group of measures in a building, funded under this part, has a total estimated cost for acquisition and installation of more than \$5,000, any construction contract or subcontract in excess of \$2,000, using any grant funds awarded under this part must include:

- (a) Those contract labor standards provisions set forth in 29 CFR 5.5 and
- (b) A provision for payment of laborers and mechanics at the minimum wage rates determined by the Secretary of Labor in accordance with the Davis-Bacon Act (40 U.S.C. 276a) as set forth in 29 CFR part 1."

29 CFR § 5.5(a)(3) states in part:

(ii) (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Department of Energy if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the City of Lafayette. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under § 5.5(a)(3)(i) of Regulations, 29 CFR part 5. This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, DC 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

(B) Each payroll submitted shall be accompanied by a 'Statement of Compliance,' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following: . . .

(iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the (write the name of the agency) or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12.

Energy Efficiency And Conservation Block Grant Program Notice 10-004A (Effective date: April 12, 2010) states in part:

The Davis-Bacon Act (DBA) is applicable to contracts of the United States in excess of \$2,000 for the construction, alteration, and/or repair (including painting and decorating) of public buildings or public works. The DBA requires all contractors and subcontractors to pay laborers and mechanics employed on a covered contract wages and fringe benefits determined by the Secretary of Labor to be prevailing for corresponding classes of employees engaged on similar projects in the locality. In numerous additional laws, Congress has specifically required adherence to DBA prevailing wage requirements where they might not otherwise be applicable.

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On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (Recovery Act) to jumpstart the economy by saving and creating jobs, and to foster energy efficiency efforts and achieve other goals. Section 1606 of the Recovery Act specifically requires that all laborers and mechanics employed by contractors and subcontractors on any project "funded directly by or assisted in whole or in part by" Recovery Act funds be paid prevailing wages as determined by the Secretary of Labor.

Accordingly, contractors and subcontractors must ensure that any laborers and mechanics employed on projects funded or assisted in whole or in part by Recovery Act funds are paid prevailing wages as determined by the Secretary of Labor for construction, alteration, and/or repair (including painting and decorating). All recipients, grantees, and subgrantees, with the exception of State and local governments that use their own employees to perform this work, must also pay their own employees performing the work of laborers and mechanics the DBA prevailing wage rate. If the entity receiving Recovery Act assistance for such projects contracts out the work, it must ensure that the DBA requirements flow down to the entities that employ the laborers and mechanics to do the work.

Grantees/subgrantees and contractors must attach the applicable wage determinations to the solicitation, assistance agreement, and resulting contract or grant. *A grantee or subgrantee and contractors/subcontractors contracting out work on a covered project must also attach the applicable wage determination(s) to the solicitation and resulting contract or grant.*

In addition, Grantees/subgrantees and contractors/subcontractors on these projects funded or assisted in whole or part by Recovery Act funds shall maintain payrolls and basic records relating to payroll during the course of the work and preserve them for a period of three years thereafter for all laborers and mechanics working on the project, or as designated in the grant document. They must also ensure that all laborers and mechanics on a project funded or assisted in whole or part with Recovery Act funds are paid on a weekly basis and must submit weekly certified payroll records to the contracting and administering agency.

The failure to include Davis-Bacon requirements in contract provisions and the lack of monitoring of compliance with the Davis-Bacon Act could result in cancellation of contracts and/or the repayment of federal funds to the Department of Energy.

We recommended that City officials institute controls to ensure that Davis-Bacon Act requirements are included in contracts in excess of \$2,000 for the construction, alteration and/or repair of public buildings or public works. We further recommend that controls to monitor compliance with federal prevailing wage rates paid on construction contracts to be established.

**FINDING 2012-9 - COMPLIANCE WITH REPORTING REQUIREMENTS**

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number: DE-SC00003233  
Pass-Through Entity: Direct Grant

The ARRA 1512 reports provided for audit were in an editable form (excel). There was no documentation provided as to when the reports were submitted and if they were submitted with the same information as provided for audit.

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There were four ARRA 1512 reports required to be filed during the audit period. All four were provided in editable form.

The grant agreement Section 25 Reporting and Registration Requirements Under Section 1512 of the Recovery Act (May 2009) states in part:

"a) This award requires the recipient to complete projects or activities which are funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) and to report on use of Recovery Act funds provided through this award. Information from these reports will be made available to the public.

b) The reports are due no later than ten calendar days after each calendar quarter in which the recipient receives the assistance award funded in whole or in part by the Recovery Act."

Failure to document compliance with the reporting compliance requirements could result in the City not being considered eligible to receive future federal awards.

We recommended that the grant managers prepare all reports in a timely manner, that management document the review of the reports prior to submission and that all reports be retained for audit in such a manner that the integrity of the data can be determined.

***FINDING 2012-10 - COMPLIANCE WITH REPORTING***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number and Year (or Other Identifying Number): DE-EE0003577-001  
Pass-Through Entity: Consolidated City of Indianapolis

The City of Lafayette was required by the prime recipient, the Consolidated City of Indianapolis, to submit reporting as a segment of the reporting required by the Department of Energy for the Indianapolis Super Bowl Legacy Neighborhood Retrofit Ramp-up Project and information to be included in the ARRA 1512. These Department of Energy reports consisted of a Better Building Grantee Report Submission which was an excel spreadsheet that the City of Lafayette completed the Residential Tab only and a Quarterly Progress Report that was a narrative that the City of Lafayette was instructed as to where to insert their relevant progress. Both reports were submitted in forms that would allow for editing, excel and word. The ARRA 1512 information was submitted to Indianapolis via email. There was insufficient documentation retained for audit as to the review process prior to submission, when the reports were submitted and the information submitted. The documents were not password protected, locked, printed or converted to portable document format (PDF).

There were 9 reports required for the audit period; four narratives; four performance reports and one special report. All were submitted and maintained in an editable form without documentation of management review.

The grant agreement Section 5.5 Records and Reporting Requirements states in part: "The Sub-grantee shall comply with all reporting requirements specified in the ARRA Policies."

Section 7.16 Documentation and Reporting states: "The Sub-grantee shall submit to the DPW such documentation as the DPW may reasonably request, including but not limited to invoices for work completed and for materials purchased. All documentation and reporting shall be in compliance with ARRA Policies."

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Failure to document compliance with the reporting compliance requirements could result in the City not being considered eligible to receive future federal awards.

We recommended that the grant managers prepare all reports in a timely manner, that management document review of the reports prior to submission and that all reports be retained for audit in such a manner that the integrity of the data can be determined.

***FINDING 2012-11 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (ARRA)***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number: DE-EE0003577-001  
Pass-Through Entity: Consolidated City of Indianapolis

The Management of the City of Lafayette has not adequately documented the establishment of an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements that have a direct and material effect to the program. These include the following compliance requirements; activities allowed, allowable costs, cash management, Davis-Bacon Act, procurement, suspension and debarment, reporting, and subrecipient monitoring. For the activities allowed, allowable costs and procurement compliance requirements, the City did not adequately document the segregation of duties. For the cash management compliance requirement, the City did not adequately document the review, approval and monitoring of the requests for reimbursement from the awarding agency. For the Davis-Bacon Act compliance requirement, the City did not adequately document the review, approval and monitoring of the required certified payrolls. The City also did not document a review process of subcontractor contracts, ensuring the inclusion of the applicable federal requirements, as required for compliance with Davis-Bacon, procurement, suspension and debarment, and special tests and provisions. For subrecipient monitoring, the City did not have any established policies and procedures for the monitoring of subrecipient compliance. For the reporting requirement, the City did not adequately document the preparation and review of required reports. The failure to adequately document the establishment of an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could allow noncompliance with federal requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

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

OMB Circular A-133, Subpart C, section .300 states in part:

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

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

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

***FINDING 2012-12 - COMPLIANCE WITH THE DAVIS-BACON ACT***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number: DE-EE0003577-001  
Pass-Through Entity: Consolidated City of Indianapolis

Compliance with the Davis-Bacon Act required payment of federal prevailing wage rates for construction, repair or alteration work funded in whole or in part with Energy Efficiency and Conservation Block Grant funds. The City, as a subgrantee, must establish controls for monitoring wages paid by contractors. They must obtain recent and applicable wage rates from the U.S. Department of Labor and incorporated them into the construction contract. According to the City's Program Manager, the monitoring provided by the Contractor's Senior Project Manager was relied upon. Monitoring of compliance with Davis-Bacon Act requirements was not performed by the City personnel. The Contractor was responsible for submission of all certified payrolls. This would include the contractor's and any subcontractor's, to be submitted weekly for each week in which any contract work was performed. The Contractor provided a total of project labor costs for their company and the two subcontractors subject to Davis-Bacon. There were significant differences between the provided totals to the certified payrolls on file at the City. It could not be determined if the totals were incorrect or if all payrolls were not accounted for.

10 CFR § 455.112 states:

"When an energy conservation measure or group of measures in a building, funded under this part, has a total estimated cost for acquisition and installation of more than \$5,000, any construction contract or subcontract in excess of \$2,000, using any grant funds awarded under this part must include:

- (a) Those contract labor standards provisions set forth in 29 CFR 5.5 and
- (b) A provision for payment of laborers and mechanics at the minimum wage rates determined by the Secretary of Labor in accordance with the Davis-Bacon Act (40 U.S.C. 276a) as set forth in 29 CFR part 1."

29 CFR § 5.5(a)(3) states in part:

"(ii) (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate Federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information

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required to be maintained under § 5.5(a)(3)(i) of Regulations, 29 CFR part 5. This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, DC 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

(B) Each payroll submitted shall be accompanied by a 'Statement of Compliance,' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following: . . .

(iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the (write the name of the agency) or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12."

Energy Efficiency And Conservation Block Grant Program Notice 10-004A (Effective date: April 12, 2010) states in part:

The Davis-Bacon Act (DBA) is applicable to contracts of the United States in excess of \$2,000 for the construction, alteration, and/or repair (including painting and decorating) of public buildings or public works. The DBA requires all contractors and subcontractors to pay laborers and mechanics employed on a covered contract wages and fringe benefits determined by the Secretary of Labor to be prevailing for corresponding classes of employees engaged on similar projects in the locality. In numerous additional laws, Congress has specifically required adherence to DBA prevailing wage requirements where they might not otherwise be applicable.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (Recovery Act) to jumpstart the economy by saving and creating jobs, and to foster energy efficiency efforts and achieve other goals. Section 1606 of the Recovery Act specifically requires that all laborers and mechanics employed by contractors and subcontractors on any project "funded directly by or assisted in whole or in part by" Recovery Act funds be paid prevailing wages as determined by the Secretary of Labor.

Accordingly, contractors and subcontractors must ensure that any laborers and mechanics employed on projects funded or assisted in whole or in part by Recovery Act funds are paid prevailing wages as determined by the Secretary of Labor for construction, alteration, and/or repair (including painting and decorating). All recipients, grantees, and subgrantees, with the exception of State and local governments that use their own employees to perform this work, must also pay their own employees performing the work of laborers and mechanics the DBA prevailing wage rate. If the entity receiving Recovery Act assistance for such projects contracts out the work, it must ensure that the DBA requirements flow down to the entities that employ the laborers and mechanics to do the work.

Grantees/subgrantees and contractors must attach the applicable wage determinations to the solicitation, assistance agreement, and resulting contract or grant. *A grantee or subgrantee and contractors/subcontractors contracting out work on a covered project must also attach the applicable wage determination(s) to the solicitation and resulting contract or grant.*

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In addition, Grantees/subgrantees and contractors/subcontractors on these projects funded or assisted in whole or part by Recovery Act funds shall maintain payrolls and basic records relating to payroll during the course of the work and preserve them for a period of three years thereafter for all laborers and mechanics working on the project, or as designated in the grant document. They must also ensure that all laborers and mechanics on a project funded or assisted in whole or part with Recovery Act funds are paid on a weekly basis and must submit weekly certified payroll records to the contracting and administering agency.

The lack of monitoring of compliance with the Davis-Bacon Act could result in cancellation of contracts and/or the repayment of federal funds to the Department of Energy.

We recommended that the City officials establish controls to ensure that all construction contracts in excess of \$2,000, financed by Federal assistance, incorporate the appropriate federal requirements and prevailing wage rates. We also recommended that the City officials establish controls to ensure and monitor federal prevailing wage rates are paid on construction contracts in compliance with the requirements of the Davis-Bacon Act.

***FINDING 2012-13 - COMPLIANCE WITH PROCUREMENT REQUIREMENTS***

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number: DE-EE0003577-001  
Pass-Through Entity: City of Indianapolis

The City of Lafayette has a Purchasing Manual which sets the guidelines for all types of procurements. At the time of the award, the required procurement method for contracts that exceeded \$75,000 was competitive bidding.

The City's Purchasing Manual states that the "purchasing agent may award a contract using the procedure under Indiana Code 5-22-9, Request For Proposal, in lieu of competitive sealed bidding, when the purchasing agent makes a written determination that the use of competitive sealed bidding would either not be practical or advantageous."

Payments to the prime contractor, Kettelhut Construction, Inc., exceeded \$700,000.

Documents provided for audit included a proposal letter from the Senior Project Manager of Kettelhut Construction, Inc., for construction manager services, a contract with Kettelhut for construction management services dated January 17, 2012, and an amendment to that original contract dated April 17, 2012.

There was no written determination, provided for audit, that the use of competitive sealed bidding would either not be practical or advantageous for this project. There was no indication or documents to support compliance with the bid process, as required by the City's Purchasing Manual and the Code of Federal Regulations. There was no supporting documentation provided for audit, to support that the procurement process promoted open and free competition, such as advertising in the public media.

Based on documentation provided for audit, Kettelhut Construction, Inc., was the company contracted with to provide management services. The payment for management services was to be \$551.25 plus costs per house for eighty houses. This should have been approximately \$45,000 to \$55,000. As part of those management services, Exhibit "A" of the original contract, states in part that Kettelhut would contract with subcontractors who would be performing the energy upgrade work. As the project progressed, it is evident that

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Kettelhut provided some construction services, as well as management services. Construction services were not included in their contract or the amended contract. The payments to subcontractors were indeterminable due to the method of invoicing. As required by the prime recipient, invoicing/accounting was maintained by progress on each home included in the retrofit project.

Guidance from the U.S. Department of Energy Better Building Handbook includes for grant recipients:

Section 8.2 The administrative requirements for DOE grants are contained in 10 CFR Part 600.

Section 8.2.2 Procurement Standards states in part: All grant recipients must maintain written standards of conduct governing their procurement procedures.

Section 8.3 Financial Requirements and Allowable Costs for BetterBuildings Awards states in part:

All federal grants are subject to certain restrictions defined by law. As part of these restrictions, all grant recipients have agreed to and must commit to the following:

Comply with the award terms and conditions of the BetterBuildings Program. The SF-424, which the grant recipient submitted with the BetterBuildings application, requires the grant recipient to comply with the terms of the grant.

Comply with federal procurement requirements. The grant recipient should follow the same policies and procedures it uses for procurement from its non-federal funds and should include any clauses required by the federal government. The following are key procurement tenets when using federal funds:

All procurement transactions should be conducted to ensure open and free competition.

The grant recipient and sub-grantee should avoid non-competitive practices (e.g., contractors that developed the specifications for a project should be excluded from bidding)."

10 CFR 600.236(b) Procurement standards (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. (2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Failure to document compliance with the procurement compliance requirements could result in the City not being considered eligible to receive future federal awards.

We recommended that the City develop procedures to determine the correct procurement requirements for each grant award. Once those requirements have been determined, the City should provide monitoring to ensure that the federally mandated procurement requirements are met. If the grant guidelines do not provide for specific federal requirements, the City should ensure that their own written guidelines are followed. We also recommended that the City develop policies, procedures, and monitoring to ensure that all relevant documentation be maintained for audit.

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**FINDING 2012-14 - COMPLIANCE WITH SUB-RECIPIENT MONITORING**

Federal Agency: Department of Energy  
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program  
CFDA Number: 81.128  
Federal Award Number: DE-EE0003577-001  
Pass-Through Entity: Consolidated City of Indianapolis

Jennie Peterson, Project Manager for the City of Lafayette, stated during an interview that she was very hands on and onsite to see the project first hand. She attended all before, during, and after visits to home sites. She also provided feedback on participating Purdue student's thesis papers written as part of Purdue's participation in this project. There was no audit documentation, narrative, or checklist, provided to document the Project Manager's oversight or the Department Heads review of the Project Manager's monitoring.

Submissions for reimbursement submitted by Purdue were reviewed by Dennis Carson, Department Head and the Controller. Purdue University submitted Project Financial Reports and Monthly Transaction Listings with each reimbursement request. The Project Financial Reports were certified as appropriate and in accordance with the agreement between the City and Purdue by the Purdue's Senior Account Manager over Sponsored Program Services. There was no evidence of review of these reports by the Program Manager for the City and they were not forwarded to the Controller's office.

The term of the subrecipient agreement was for the period February 14, 2011 to April 30, 2013; there were no requests, as allowed by the subrecipient agreement, for the two required audit reports that Purdue would have submitted during that period. These reports are public record and are available through the State Board of Accounts website but there is no documented review of the audit reports in the grant files and per interviews with grant administrators, no review was made.

10 CFR § 600.240 (a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Energy Efficiency and Conservation Block Grant Notice 10-019: Subject: Guidance for Energy Efficiency and Conservation Block Grantees and Sub-recipient Monitoring § 6.1 states:

"The main purpose of monitoring sub-recipients is to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of financial agreements to ensure that the performance goals of the award are achieved. As stewards of Federal grants passed through to sub-recipients, grants have responsibilities that include: 1) Informing subrecipients of all applicable Federal regulations and program guidance documents (e.g., 10 CFR part 600, 10 CFR part 420, OMB Circulars A-21, A-122, A-133, the Recovery Act, National Policy Assurances, National Environmental Policy Act, Davis-Bacon/Buy American Act, and flow-down provisions; 2) Ensuring that the sub-recipients comply with program requirements and achieve performance goals; 3) Ensuring that sub-recipients comply with fiscal requirements, such as having appropriate fiscal controls in place, and use awards for authorized purposes; and 4) Ensuring that sub-recipients expending more than \$500,000 in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 for the fiscal year."

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

Energy Efficiency and Conservation Block Grant Notice 10-019: Subject: Guidance for Energy Efficiency and Conservation Block Grantees and Sub-recipient Monitoring § 6.2 states in part: "DOE suggests that grantees utilize a variety of monitoring mechanisms, including progress reports, site visits, financial reports, independent (third party) financial audits, and/or internal (grantee-conducted) financial audits."

Per the grant agreement between the City of Lafayette and Purdue University for the work related to the Planning and Reconstruction of a Deep Energy Efficiency Retrofit Demonstration Home, stated in Article VI: Audit and Records: Paragraph 1: "If the Recipient is subject to OMB Circular A-133 or has external independent audit conducted of its operations, then during the period of this Agreement the Recipient agrees to provide such audit reports annually upon request." Paragraph 3 states in part: "Upon reasonable request by Lafayette to the Recipient, the Recipient's facilities or such part thereof as may be engaged in the performance of this Agreement, and any related project financial records, documents, papers and other records pertinent to this Agreement shall be subject to inspection and audit."

Failure to document compliance with the subrecipient monitoring compliance requirements could result in the City not being considered eligible to receive future federal awards.

We recommended that the city grant administrators develop policies and procedures to ensure that subrecipients are monitored by project managers and that monitoring is reviewed by the appropriate department head. All reviews and monitoring should be adequately documented.



September 10, 2013

### **Corrective Action Plan**

#### FINDING NO. 2012-01

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

#### Corrective Action Planned:

The City of Lafayette has a detailed internal control process for the purchase of assets to provide safeguards for the use of the tax dollars and the citizens who provide them. The process is as follows.

In addressing bullet point #1 since 2008 the City employs one of two methods for the recording of capital assets and construction work in progress. One, the Purchasing software module is employed by a Department when buying a capital asset. There are eight distinct steps involving no less than six people. The Department must input a requisition in the system. This is done by the departmental administrative assistant and at that time coded as a capital asset by the admin person. The Department head must approve the requisition. The system then sends the requisition to the Purchasing Manager for creation of the P.O. When the asset is delivered the admin assistant receives the asset into the system. A SBOA approved claim voucher is then filled out and signed by the Department Head. The voucher then is sent to the Controller's Office where it is checked by the Accounts Payable Manager and a payable is created in the system. All claims sent to the Board of Works are reviewed by the Controller. Once voted upon and approved the A/P is posted to the general ledger and simultaneously in the Asset Module of the software. These steps are required by the software package. All depreciation is calculated by the system and an accountant in the Controller office keeps an internal worksheet to verify system information. This worksheet is also used as an informal audit tool by the Controller's Office to verify the general ledger. When the Controller or the Deputy Controller is satisfied the Asset module is correct, the Asset Accountant produces an accounting entry for the general ledger and it is approved by the Controller or Deputy Controller.

Two, a similar multistep process is involved for construction work in progress. Projects, especially larger ones, have a construction manager in place. The project is assigned a number and is input into the software's Project Accounting Module. This will capture all the project expense using the same account numbers as our chart of accounts. There is again an internal worksheet that tracks the original contract amount, change orders, amount paid and balance of contract. The payment process begins by the construction manager passing along a copy of an invoice from a subcontractor on the project. The invoice is reviewed by the Department Head or in the case of City wide projects the Engineering Department. The Department Head when satisfied with the correctness of the invoice has a claim voucher prepared by the admin assistant, signs it and sends to the Accounts Payable Manager who checks the account and project information and enters this into the system and an account payable is created. If the Director of Public Works approves the invoice sent from the construction manager, it is sent to the Asset Accountant who again codes the claim voucher sends it back to the Director for signature. It is then sent to the Account Payable manager for checking and input into the system and creation of the payable. Before going to the Board of Works for approval all claim vouchers created in this manner are reviewed by the Controller. Once again if the Board approves the payable it is posted in the general ledger and simultaneously in the Project Accounting module. We again use the internal worksheet as an audit tool to verify the general ledger. 90 days from the project completion and vote by the Board the CWIP is capitalized on put on the books. The Asset Accountant prepares the entry and it is approved by the Controller or Deputy Controller. Should a purchase order be involved it goes through the process in the previous paragraph but a project code is included and it automatically posts to the CWIP account for that project.

As to bullet point #2 the Board of Works is the board that oversees the day to day operational aspects of the City. Since 2013 the internal worksheet that tracks construction contracts goes to the Board of Works every week as well as a complete listing of all vendor invoices for payment to provide Board with the necessary information for oversight.

These processes are for the most part electronic and we do not print out the various internal worksheets or listings and initial that we have reviewed as part of an operating procedure inside this office. We will investigate a method to electronically encode a signature on these internal worksheets to prove our oversight but to print out, sign and file those internal worksheets is a step back in an age where eliminating paper and creating efficiency is the goal of every business and government entity.

FINDING NO. 2012-02

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

A new project manager took over this program in mid project. An Operating Procedures Manual created with duties and responsibilities clearly delineated, was not stressed enough during training. That has been corrected. Additionally a weekly meeting with the Controller's Office has been initiated to review all activities.

FINDING NO. 2012-03

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

This occurred due to a misinterpretation of the rules. A check list of detailed procedures created from operational manuals is now included with each project and sub recipient agreement and is to be referenced for each activity.

FINDING NO. 2012-04

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

Once again proper use of the Operating Procedures Manual as mentioned in 2012-02 and weekly meetings to discuss the status of projects will provide the necessary corrections to resolve this finding. Notes are being kept to prove the meeting took place.

FINDING NO. 2012-05

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

The check list of detailed procedures as mentioned in 2012-03 has been developed and is included for each project or sub recipient and will resolve this finding.

FINDING NO. 2012-06

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

This grant was written by a different department than the one that administered the project. Although the project work was completed by firms paying well above Davis-Bacon requirements the necessary verifications were not performed. In the future all grant work will have as a component the aforementioned check list attached and conform to the SOP's that have been developed

FINDING NO. 2012-07

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

This occurred due to a misinterpretation of project funding. Since this was for an improvement that included roads the City applied INDOT rules which require all funding be on hand before starting a project. As with 2012-06 the adherence to the SOP manual and checklist will resolve this finding.

FINDING NO. 2012-08

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

This particular grant had several phases and contractors as you can see from 2012-06 and 2012-07 and again the procedures to resolve are the same as above and are in place.

FINDING NO. 2012-09

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

The 1512 reports were sent out in a form that could be edited because that is what the Grantor required. Since this was a reimbursement grant if we did not follow the instructions of the Grantor we would not be reimbursed. All reports were sent via email and since all email is archived as public record, it was felt that was sufficient. In the future we will save an additional copy of the form that someone cannot edit.

FINDING NO. 2012-10

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

As with the above finding the City was instructed to file the report exactly as we did, in the form we did, by the Grantor or we would not be reimbursed for this grant. These forms were sent to the Controller via email for review. If correct I did nothing. If there was a problem I emailed the correction back and then the report was emailed to the Grantor. In the future we will save an additional copy of the form that can't be edited and I will respond to all emails to prove I have received and reviewed the information.

FINDING NO. 2012-11

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

Again a new project manager took over this project in mid-stream. This project retrofitted over 100 homes at an average of \$7,000 work per home. The project manager was on site at one of the locations daily but again documentation was not done properly. As with previous findings an Operations Manual detailing the SOP and a project checklist was developed and will be used.

FINDING NO. 2012-12

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

As with previous findings in this report the controls have been identified, formalized and are in place.

FINDING NO. 2012-13

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

Due to the unique nature of this project it was determined that a change in the overall project was required. The City Attorney was consulted and at that time a determination was made that the action taken would not violate City purchasing policy or IC 5-22-9. In the future if a similar project would require a determination be made, an Opinion Letter from the City Attorney will be sought and become part of the backup documentation.

FINDING NO. 2012-14

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12-31-13

Corrective Action Planned:

As with previous findings in this report the controls have been identified, formalized and are in place.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Michael Jones". The signature is fluid and extends to the right.

J. Michael Jones  
Controller

CITY OF LAFAYETTE  
EXIT CONFERENCE

The contents of this report were discussed on September 16, 2013 with Tony Roswarski, Mayor; J. Michael Jones, Controller; Terry Schmitt, Deputy Controller; Ronald B. Campbell, President of Common Council; Cindy Murray, Board of Works member; Aimee Jacobsen, Community Development Director; and Dennis H. Carson, Director of Economic Development. The official response has been made a part of this report and may be found on pages 91 and 92.



CITY OF  
LAFAYETTE  
OFFICE OF CONTROLLER

September 18, 2013

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 we did last year the City of Lafayette is writing a brief response to the 2012 Audit results and comments. Overall the City of Lafayette concluded 2012 on a positive note as we have positive fund balances in all our operational funds.

In the notes you will find that the City did spend in excess of budget in three funds. All of the amounts were deemed not material and were covered by cash balances. Additionally in the Police Education fund our corporate attorney has concluded, in an opinion letter, that the fund per I.C. code 5-2-8-2(d) can expend funds without the appropriation going before Council. We did present this budget to Council but with the opening of a new Police Training Center some expenses were incurred after the original presentation to Council. The LOHUT fund is the fund used to pave roads and due to unforeseen change orders this fund was slightly overspent. Lastly in the Park Bond fund we refinanced the three Park Bonds and combined them into one bond. The related transactions of retiring the bonds and related issuance costs exceeded the original budget. Those transactions by the way will result in a NPV savings of approximately, \$400,000 for the citizens of Lafayette.

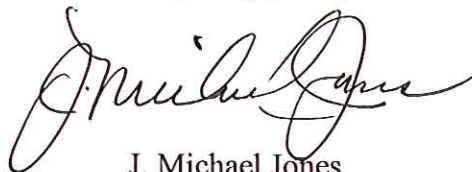
Lastly I would like to address the findings. The first item concerns the internal controls of the City of Lafayette. I want to stress that the City does indeed have internal controls and they are quite stringent. For instance, to purchase a capital asset through our software's purchasing module requires 8 separate steps involving a minimum of 6 different people. During this process checks are maintained at the department level as well as the Controller's Office. The purchasing module software makes entries into the capital asset module and the project management module. From that point internal worksheets are used to audit the two modules and then an entry is prepared for the general ledger. That audit is conducted by the management staff and the entry is approved by them as well. If the asset is acquired through an infrastructure construction contract a similar process is used as well. The 8 steps are still in place and in this case a 7<sup>th</sup> person, the outside construction manager, is added to the list of people reviewing the asset

purchase, in this case CWIP. Again the software's accounts payable module will make the entry into the project module and the procedure of auditing the modules and making a recording entry are followed. We do not print out voluminous amounts of paper to prove we reviewed this process as we, like many cities, are trying to eliminate as much paper as possible as it is time consuming and costly. The process, driven by the software, can trace the entire transaction from original documents to the general ledger entry and the approvals that occur during the process can be tracked electronically as well.

The last item relates to the various grants and grant responsibilities of the City. I would like to stress that all of the necessary reviews and oversights were indeed performed. When one looks at some of the projects and their successful completion it is clear that oversight took place. For instance an energy retrofit program was hoping to benefit 80 homeowners. However, through effective oversight and management we were able to benefit 106 homeowners with energy savings retrofits. What was missing was clear step by step documentation. There was no lack of oversight it was merely not sufficiently documented and steps have been taken to resolve any such problems in the future.

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". The signature is fluid and cursive, with a large initial "J" and a long, sweeping tail.

J. Michael Jones  
Controller